MARITIME REFORM FUNDING PROPOSALS

Y 4.M 53:103-108

Maritime Reform Funding Proposals,...

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

VARIOUS FUNDING ALTERNATIVES FOR A PROGRAM TO PROMOTE AN AMERICAN FLAG FLEET AND OUR SHIPBUILDING INDUSTRY

APRIL 28, 1994

Serial No. 103–108

Printed for the use of the Committee on Merchant Marine and Fisheries

NOV 2 1994

U.S. GOVERNMENT PRINTING OFFICE

81–160cc WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-045847-1

MARITIME REFORM FUNDING PROPOSALS

Y 4.M 53:103-108

Maritime Reform Funding Proposals,...

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

VARIOUS FUNDING ALTERNATIVES FOR A PROGRAM TO PROMOTE AN AMERICAN FLAG FLEET AND OUR SHIPBUILDING INDUSTRY

APRIL 28, 1994

Serial No. 103–108

Printed for the use of the Committee on Merchant Marine and Fisheries

NOV 2 1994

U.S. GOVERNMENT PRINTING OFFICE

81–160cc WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-045847-1

COMMITTEE ON MERCHANT MARINE AND FISHERIES

GERRY E. STUDDS, Massachusetts, *Chairman*

WILLIAM J. HUGHES, New Jersey
EARL HUTTO, Florida
W.J. (BILLY) TAUZIN, Louisiana
WILLIAM O. LIPINSKI, Illinois
SOLOMON P. ORTIZ, Texas
THOMAS J. MANTON, New York
OWEN B. PICKETT, Virginia
GEORGE J. HOCHBRUECKNER, New York
FRANK PALLONE, JR., New Jersey
GREG LAUGHLIN, Texas
JOLENE UNSOELD, Washington
GENE TAYLOR, Mississippi
JACK REED, Rhode Island
H. MARTIN LANCASTER, North Carolina
THOMAS H. ANDREWS, Maine
ELIZABETH FURSE, Oregon
LYNN SCHENK, California
GENE GREEN, Texas
ALCEE L. HASTINGS, Florida
DAN HAMBURG, California
BLANCHE M. LAMBERT, Arkansas
ANNA G. ESHOO, California
THOMAS J. BARLOW, III, Kentucky
BART STUPAK, Michigan
BENNIE G. THOMPSON, Mississippi
MARIA CANTWELL, Washington
PETER DEUTSCH, Florida
GARY L. ACKERMAN, New York

JACK FIELDS, Texas
DON YOUNG, Alaska
HERBERT H. BATEMAN, Virginia
JIM SAXTON, New Jersey
HOWARD COBLE, North Carolina
CURT WELDON, Pennsylvania
JAMES M. INHOFE, Oklahoma
ARTHUR RAVENEL, JR., South Carolina
WAYNE T. GILCHREST, Maryland
RANDY "DUKE" CUNNINGHAM, California
JACK KINGSTON, Georgia
TILLIE K. FOWLER, Florida
MICHAEL N. CASTLE, Delaware
PETER T. KING, New York
LINCOLN DIAZ-BALART, Florida
RICHARD W. POMBO, California
HELEN DELICH BENTLEY, Maryland
CHARLES H. TAYLOR, North Carolina
PETER G. TORKILDSEN, Massachusetts

JEFFREY R. PIKE, *Chief of Staff*
THOMAS R. KITSOS, *Chief Counsel*
MARY J. FUSCO KITSOS, *Chief Clerk*
HARRY F. BURROUGHS, *Minority Staff Director*

SUBCOMMITTEE ON MERCHANT MARINE

WILLIAM O. LIPINSKI, Illinois, *Chairman*

OWEN B. PICKETT, Virginia
GENE TAYLOR, Mississippi
THOMAS H. ANDREWS, Maine
LYNN SCHENK, California
GENE GREEN, Texas
ALCEE L. HASTINGS, Florida
JACK REED, Rhode Island
ELIZABETH FURSE, Oregon
BART STUPAK, Michigan
THOMAS J. MANTON, New York
GARY L. ACKERMAN, New York
BENNIE G. THOMPSON, Mississippi
GERRY E. STUDDS, Massachusetts
(Ex Officio)

HERBERT H. BATEMAN, Virginia
JAMES M. INHOFE, Oklahoma
RANDY "DUKE" CUNNINGHAM, California
JACK KINGSTON, Georgia
TILLIE K. FOWLER, Florida
PETER T. KING, New York
LINCOLN DIAZ-BALART, Florida
HELEN DELICH BENTLEY, Maryland
JACK FIELDS, Texas (Ex Officio)

KEITH LESNICK, *Staff Director*
FRED ZEYTOONJIAN, *Majority Counsel*
JOHN C. RAYFIELD, *Minority Professional Staff*

CONTENTS

Page

Hearing held April 28, 1994 1

Statement of:

Bateman, Hon. Herbert, a U.S. Representative from Virginia, and Ranking Minority Member, Subcommittee on Merchant Marine 6

Collins, Richard, Chairman, International Committee, National Industrial Transportation League 8

Prepared statement 45, 53

Council of European & Japanese National Shipowners' Association (prepared statement) 83

Fields, Hon. Jack, a U.S. Representative from Texas, and Ranking Minority Member, Committee on Merchant Marine and Fisheries 2

Finnerty, Peter, Vice President, Sea-Land Service, Inc. 7

Prepared statement 34

Godwin, Jean C., Vice President of Government Relations, American Association of Port Authorities (prepared statement) 76

Lipinski, Hon. William O., a U.S. Representative from Illinois, and Chairman, Subcommittee on Merchant Marine 1

Loree, Philip J., Chairman, Federation of American Controlled Shipping (prepared statement) 80

Passenger Vessel Association (prepared statement) 86

Phelleps, Moya, Executive Director, Coal Exporters Association, affiliate of the National Coal Association 16

Prepared statement 68

Schenk, Hon. Lynn, a U.S. Representative from California 5

Shapiro, Philip, President and CEO, Liberty Maritime Corporation 11

Stocker, John, President, Shipbuilders Council of America 13

Prepared statement 57

Turner, Terry, National Director of Political Action and Governmental Relations 3

Additional material supplied:

Collins, Richard: Synopsis of recommendations submitted by Roger W. Wigen, Commissioner, Advisory Commission on Conferences in Ocean Shipping 51

Phelleps, Moya: Impact of the proposed vessel tonnage tax increase on U.S. coal exports 74

Communications submitted:

Lipinski, Hon. William O.: Memorandum of April 27, 1994, to Subcommittee Members on funding alternatives for maritime reform 31

Parise, Louis, and Talmage Simpkins: Letter of May 11, 1994, to Hon. William O. Lipinski 88

MARITIME REFORM FUNDING PROPOSALS

THURSDAY, APRIL 28, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:05 a.m., in room 1334, Longworth House Office Building, Hon. William O. Lipinski (Chairman of the Subcommittee) presiding.

Present: Representatives, Lipinski, Pickett, Taylor, Schenk, Bateman, Bentley.

Staff Present: Keith Lesnick, Staff Director; Randy Morris, Clerk; Fred Zeytoonjian, Counsel; Natalie Hidalgo, Professional Staff Member; David Honness, Professional Staff Member; Hugh N. Johnston, Minority Counsel; Jeffrey R. Pike, Staff Director; John Cullather, Professional Staff Member; Carl W. Bentzel, Counsel; Sue Waldron, Press Assistant; Harry F. Burroughs, Minority Staff Director; Cynthia M. Wilkinson, Minority Chief Counsel; Kip Robinson, Minority Counsel; Margherita Woods, Staff Assistant

STATEMENT OF HON. WILLIAM O. LIPINSKI, A U.S. REPRESENTATIVE FROM ILLINOIS; AND CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

Mr. LIPINSKI. Good morning and welcome to this important Subcommittee hearing. Today we begin the final step in our journey to achieve meaningful maritime reform. We will receive testimony on the various funding alternatives for a program to promote an American flag fleet and our shipbuilding industry.

Last year the House overwhelmingly passed maritime reform legislation, demonstrating our support for a strong U.S. Merchant Marine. I would like to underscore my personal resolve to fully fund a comprehensive maritime reform program and move quickly in completing our Subcommittee work.

It is my intention to schedule markups in May for the appropriate legislation to achieve these goals. Let me be frank; time is an important factor here. I do not intend to leave any of this business undone before we return to our districts for the Memorial holiday break.

As you all know, the House must pass a funding proposal before the Senate can act. I will never let it be said that this program failed because our committee did not act in a timely fashion.

It is all too important. If Congress does not act this year, our maritime industry will slip away, we have all worked too hard to let that happen.

With this in mind and after consultation with Members of the Subcommittee, I plan to discuss the funding proposals being considered today with Chairman Rostenkowski. Together, I believe we will find the appropriate mix of revenues to pay for our program and move this legislation on to the Senate.

We have the resolve, and now I believe we have a way to pay for our program. I would like to add that I have already started the conversations with Chairman Rostenkowski. I spoke to him yesterday and this morning on the phone and he of course has been visited by numerous other individuals who are interested in this legislation.

As he has told others and myself over the last couple of days, he is going to do his utmost to try to accommodate us in moving this legislation. We have no guarantees from him but I believe we do have a sincere statement on his part that he is going to try to help us as much as possible.

Mr. LIPINSKI. The Chair now recognizes Mr. Taylor for his opening statement.

Mr. TAYLOR. Just go ahead.

Mr. LIPINSKI. You are passing? All right, we have an opening statement from Mr. Fields and without objection we will accept that into the record and there is no objection.

[Statement of Hon. Jack Fields follows:]

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I would like to again compliment you and our distinguished colleague from Virginia, the Honorable Herb Bateman, for your collective efforts and tireless leadership in the area of maritime reform.

Over the last several months, the Merchant Marine Subcommittee has held a number of hearings, focusing both on maritime promotion legislation as well as seeking new sources of revenue to pay for such a program.

The Administration's proposed maritime revitalization program would be financed by significantly increasing the tonnage fees on those vessels visiting U.S. ports. As has been noted, that proposal would raise approximately $110 million a year for the operating assistance program. However, since the Administration's proposal does not contain a shipbuilding component—similar to our Series Transition Payment (STP) Program—there is no funding provided for any domestic construction.

Mr. Chairman, H.R. 2380 would raise money through a surcharge on passenger vessel tickets as well as a $15 tax on all 20-foot containers imported into or exported from the United States.

In my judgment, these are all helpful recommendations on ways to raise the necessary capital we need to finance maritime reform and they deserve careful study.

In addition, I suspect there are many of us on this Committee who believe that the Department of Defense, which has such a huge stake in reliable and available U.S.-flag vessels, should help pay for these national defense assets. Unfortunately, it would appear that the Department of Defense does not intend to financially support this revitalization effort.

It is my hope that our distinguished witnesses will candidly share with us their thoughts on the economic consequences of increasing tonnage fees, cruise ship ticket prices or container taxes and what, if any, other alternatives should be considered to help pay for maritime reform.

Suffice it to say, that identifying new sources of revenue is the critical step needed to assure the continued existence of an American merchant marine.

Mr. Chairman, I look forward to working with you, Mr. Bateman, and our Full Committee Chairman, the Honorable Gerry Studds, in a bipartisan fashion to craft a funding mechanism to support our maritime industry. This hearing is an important step in that process.

Thank you, Mr. Chairman.

Mr. LIPINSKI. Mr. Bateman, the Ranking Member of this Subcommittee is tied up on other pressing business at the present time but as soon as he can, he will be joining us.

Our witnesses this morning are Mr. Terry Turner, National Director of Political Action and Governmental Relations, the Seafarers International Union; Mr. Peter Finnerty, Vice President, Sea-Land Service, Inc.; Mr. Richard Collins, Chairman, International Committee, National Industrial Transportation League; Mr. Phillip Shapiro, President and CEO, Liberty Maritime Corporation; Mr. John Stocker, President, Shipbuilders Council of America; and Ms. Moya Phelleps, Executive Director, Coal Exporters Association, Affiliate of the National Coal Association.

I welcome one and all of you here this morning. We sincerely look forward to your testimony. We know that not everyone will agree but we are here to listen to all sides and hopefully we can forge a coalition and move forward with our legislation.

The first witness that we will hear from this morning will be Mr. Terry Turner. Welcome.

STATEMENT OF TERRY TURNER, NATIONAL DIRECTOR OF POLITICAL ACTION AND GOVERNMENTAL RELATIONS

Mr. TURNER. Thank you, Mr. Chairman, and Members of the Subcommittee. My name is Terry Turner. I appreciate this opportunity to comment on the funding proposals for maritime reform as embodied in H.R. 4003, the Maritime Security and Trade Act of 1994, the Administration's program to revitalize the U.S.-flag merchant marine.

I would like to depart for just a second from my prepared text, Mr. Chairman, just to thank you personally for your leadership in this effort in these endeavors, both this year and of course last year when 2151 passed the House resoundingly. If it was not for you, we would not be sitting here at this moment talking about this funding proposal.

Mr. LIPINSKI. Well, thank you very much for those kind words but really there are an awful lot of people involved in this effort, and I think credit should be shared amongst all of us, but thank you anyway.

Mr. TURNER. Over the years, Mr. Chairman, the SIU has been a strong and vocal proponent of maritime reform. During the last decade, representatives of my union have appeared repeatedly before this and other committees making the case that America's economy and national security rely on a strong merchant marine, yet this essential national resource has been threatened with extinction.

It was not until the United States, joined by its allies, engaged in the Persian Gulf crisis, did it hit home that the Nation is highly dependent on its merchant fleet to sustain its troops.

While Operation Desert Shield/Storm highlighted the strengths of the U.S.-flag commercial fleet, it also showed its weakness, a shortage of vessels to carry out the responsibilities imposed on it during the national emergency.

The nation was fortunate that we had the support of our allies and could charter foreign-flag vessels. In the next emergency, we may not have that support.

Thus, it is essential that we adhere to the lessons learned and enact a program that will guarantee a viable, cost-efficient and militarily useful commercial fleet. Fortunately, President Clinton, Transportation Secretary Peña and Members of this Committee have given their support and leadership to the maritime reform effort.

Overwhelmingly passage of H.R. 2151 last November demonstrated the House of Representatives heard the question, "Is it in the national interest for the United States to have a U.S.-flag merchant marine?" The answer was a resounding yes.

Our efforts have now reached critical mass with the addition of vitally needed White House support. Although the previous Administration made an attempt to enact maritime reform legislation, we are fortunate this time we have an Executive Branch that not only has specific proposals but specific ways to pay for them as well.

Our government now stands ready to make the hard choices necessary to turn good ideas into better reality. The Administration proposes paying for its maritime revitalization program by increasing the tonnage duty, a levy that has been around for two centuries, on most vessels entering the U.S. ports from foreign waters.

Vessels arriving from a nearby Western Hemisphere port would see its duty increase from nine cents per net registered ton to 24 cents. The fee on ships from other foreign ports would be raised from 27 cents to 71 cents. In keeping with the century-old practice, the fee would be capped at five calls per year per ship.

While no tonnage fee increase is pleasant, the effect of this proposal would have on operators, shippers and passengers would likely be minimal. The Administration projects net increases of approximately one penny per barrel of oil, 14 cents per ton of bulk cargo, 38 cents on a typical cruise ticket and $1.50 per year on a 20-foot container.

This is hardly the sort of burden that would seriously threaten our foreign trade or render us noncompetitive. What it does appear to be is the least onerous of the various alternatives that have been discussed for financing a program that is vital to our national interests.

It represents the long and hard efforts of maritime labor, ship operators and government officials to arrive at a solution that addresses a wide variety of concerns. It reflects the Administration's recognition that it is essential to involve in the process everyone who has a stake in America's continuing role as a leading maritime power.

That includes operators of foreign-flag vessels as well. It is frequently overlooked in this debate that these operators benefit from a wide variety of services provided by agencies of the Federal Government in order to facilitate international commerce.

For example, some $800 million in aids to navigation, vessel inspections, search and rescue activities and the like are furnished annually by the Coast Guard, yet the current tonnage fee yields about $63 million per year, well under 10 percent.

By choosing an across-the-board source of revenue, the White House has found a way to involve virtually all those whose commercial activities are enhanced by government programs.

It is understandable that interests from other American industries will object to an increase in the tonnage fee arguing that it may make their product noncompetitive in the international market. But I ask them how competitive will their product be if there is no U.S.-flag fleet in the international trades and the cheaper foreign-flag rates escalate in response.

Maritime reform is enjoying an unprecedented degree of official support. It is also facing an unprecedented level of danger should enacting legislation not be approved this year. As you know, the leading U.S.-flag liner companies have applied to the Maritime Administration for permission to flag out substantial portions of their fleet to foreign registries. More are sure to follow if Congress does not act immediately to put into place a Maritime Security Fleet program.

These are resources that, once gone, are gone forever. Not only will the United States lack the ships it needs to provide strategic sealift during emergencies, equally important it will also lack the skilled crews needed to man the ships. That is why there is no alternative to an active merchant fleet with actively employed crews.

As a matter of stated policy, the U.S. Government has consistently supported its merchant marine. Now we are at a crossroads where we must move beyond the rhetoric to make the long-term commitments necessary to keep our commercial fleet afloat.

The SIU believes that the Administration's financing proposals represent a courageous step toward restoring viability to America's fourth arm of defense.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions you may have.

Mr. LIPINSKI. Thank you very much, Mr. Turner. Before we go to our next witness, I would like to recognize Ms. Schenk for an opening statement.

STATEMENT OF HON. LYNN SCHENK, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. SCHENK. Thank you, Mr. Chairman. I appreciate your courtesy in accommodating me. Unfortunately, I have a terrible, unavoidable conflict.

Let me just say, number one, how much I applaud your efforts and commend you for taking on this very difficult topic, but I must reiterate again my very deep disappointment with the Administration for its failure to support the series transition program.

I just do not see how we can consider a maritime reform program that in reality only addresses the shipping side. I certainly support what we are doing here today but I would hope that on another day with another hearing that we can look to the shipbuilding side of the equation.

And, as you know, Mr. Chairman, you have co-sponsored my bill, H.R. 3769, that will bring forward an alternative option, and so I appreciate your consideration.

Mr. LIPINSKI. Thank you.

The Chair now recognizes an individual who is obviously extremely knowledgeable in maritime matters and a very, very strong force in America for the American merchant marine and shipbuild-

ing industry, the Ranking Member of this Subcommittee, Mr. Herb Bateman.

STATEMENT OF HON. HERBERT BATEMAN, A U.S. REPRESENTATIVE FROM VIRGINIA

Mr. BATEMAN. Thank you, Mr. Chairman. I was very anxiously awaiting who you were referring to. Mr. Chairman, I have an opening statement but in view of the fact that other committee assignments made me late, I do not want to delay the proceedings and so I will simply ask unanimous consent that the statement be entered for the record and express my satisfaction at the fact we are having this hearing this morning in order that we can hear from people in the maritime community.

We all share the objective of passing an effective maritime reform bill this session of Congress and I think it is going to be critical to being able to do that that there be a shipbuilding component, and given the rules under which we operate, that speaks of the necessity for revenue.

I think we need to be very cautious as we move through this that any revenue sources that we are compelled to resort to be as fair and as equitable as we can make them and, secondly, that we have a strong fail-safe provision in it that any revenues that we identify which might be obtained do indeed get used for these purposes, not somebody else's purposes, and I look forward to hearing from the witnesses.

[Statement of Hon. Herbert Bateman follows:]

STATEMENT OF HON. HERBERT BATEMAN, A U.S. REPRESENTATIVE FROM VIRGINIA, AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON MERCHANT MARINE

Thank you, Mr. Chairman, for holding a hearing on what is really the only issue remaining in our effort to achieve broadbased maritime and shipbuilding reform—and that is of course the job of paying for these programs. The Administration has proposed an increase in the tonnage fees.

There are several other proposals including imposition of a container tax, an excise tax on cruise ship tickets, and use of the operating and maintenance funds from the Ready Reserve Force. My goal, and I know Chairman Lipinski shares this goal, is to propose a funding solution for both components of H.R. 2151 (operating and shipbuilding). I want a proposal that can not only get out of this Committee, but pass the House, pass the Senate and survive in conference.

Inclusion of funding for the operating component and the shipbuilding component in one package is essential—and yes, doable.

Again the compromise we worked so hard to achieve in H.R. 2151 will most certainly come unraveled if the shipbuilders are not part of the final bill. Now I listened carefully to the testimony of Secretary Peña several weeks ago when he outlined the Administration's shipbuilding initiative of last fall. That initiative was a helpful and a welcome start but without a Series Transition Payment Program, as contained in H.R. 2151, we will be leaving this part of our task unfinished.

Now I am more than willing to consider the Administration's proposed funding mechanism.

However, I will state again as I did three weeks ago when Secretary Peña testified—that I remain concerned that the bulk segment of this industry seems to bear a larger percentage of the burden than other segments. From the U.S. bulk operator standpoint, they are not even included in the Administration's proposal. From a commodity viewpoint, coal, grain, fertilizer and phosphates—all export commodities, contribute almost 50 percent of the revenues. Again I think we need to make some adjustments to the Administration's proposal and I believe these adjustments are, in fact, feasible.

Obviously no one looks forward to raising fees of this type but I must say that Chairman Lipinski is to be commended for taking the bull by the horns and pushing forward.

Thank you, Mr. Chairman.

Mr. LIPINSKI. I thank Mr. Bateman for his opening statement and his full statement will be included in the record without objection.

I just want to say before we get back to our next witness that a number of people have complimented my leadership for this particular program and I appreciate the recognition. I want everyone to know that Mr. Bateman has been a very, very strong advocate of this program and I sincerely want to thank him publicly for his efforts for as long as I have been the Subcommittee Chairman, and I know his efforts go back long before that.

Our next witness this morning will be Mr. Peter Finnerty. Peter, welcome.

STATEMENT OF PETER FINNERTY, VICE PRESIDENT, SEA-LAND SERVICE, INC.

Mr. FINNERTY. Thank you, Mr. Chairman, and Members of the Subcommittee. I am appearing today as a representative of U.S.-flag liner carriers to urge immediate enactment of a funded revitalization program for the U.S.-flag liner fleet.

I ask that our full written statement be included in the record.

Mr. LIPINSKI. Without objection, so ordered.

Mr. FINNERTY. It has been almost a year since the U.S.-flag carriers last appeared before the Subcommittee to urge enactment of legislation to revitalize the U.S.-flag merchant marine. During that year much has been done toward realization of that goal.

Congress, responding to the leadership of this Subcommittee and the Full Committee, moved further toward adopting a revitalization program for the U.S.-flag liner fleet than at any time in the past two decades. We commend you for that leadership.

We are firmly convinced that had you not risen to the challenge nothing that has been achieved in the past year toward meaningful reform in the U.S. maritime industry would have occurred.

H.R. 2151 and the accompanying maritime tax reform package served as the catalyst for everything that has followed. This Subcommittee and its leadership had the foresight and determination necessary to stand up and say that it was important to the national interest that the United States ensure the continued existence of an operating fleet of U.S.-documented vessels.

On November 4, 1993, the leadership and Members of the Committee were instrumental in achieving House passage of the most significant piece of maritime reform legislation since 1970. Nor was this a narrow victory. By passing H.R. 2151 by the overwhelming margin of 347 to 65 and decisively defeating an attempt to amend its cargo-preference provisions, the House sent a message that was heard throughout the country.

The survival of the maritime industry in the United States was important to the House and its Members. Anyone seeking to challenge that proposition faced a daunting task.

On February 7, 1994, the White House released its proposed fiscal year 1995 budget, which included funding for a $1 billion, 10-year maritime revitalization program. A month later, on March 10, Secretary Peña forwarded to the Congress proposed implementing legislation for the Administration's program and that bill, H.R.

4003, the Maritime Security and Trade Act of 1994, is before the Subcommittee today.

Underlying the urgent need for a funded program to revitalize the U.S.-flag liner fleet is the undisputed fact that such a fleet benefits both our economy and our national defense. President Clinton stated as H.R. 4003 was being forwarded to the Congress, and I quote:

This legislation represents an important step forward in assuring America's future as a maritime nation. A modern merchant United States-flag fleet, with skilled U.S. mariners, will provide not only jobs and economic benefits, but also an important sea-lift capability in times of national emergency. President Clinton has clearly grasped the situation.

There is at this time with presidential support a unique opportunity to pass legislation. That opportunity must not be lost.

Failure to enact a new support program would be widely perceived as signaling the end of the effort to achieve meaningful reform of U.S. maritime policy. It is our view that if a new promotional program with funding is not passed, present operators will not survive economically while operating under U.S.-flag.

As to the means of funding a new program, the Administration has recommended an increase in vessel tonnage fees. In the current economic environment, no one readily proposes cost increases for any sector of the national economy. The Administration clearly had to balance tight budget constraints against the obvious national interest in revitalizing the U.S.-flag liner fleet.

After careful deliberation, the Administration chose an increase in tonnage fees as a means of funding a maritime program which would be consistent with budget act requirements. We commend the Administration for having made a difficult choice and for proposing a funding source to Congress in its legislation.

We support the Administration's decision. Let us also add that we believe it would be reasonable for the Department of Defense to support at least a portion of a new maritime program.

In closing, Mr. Chairman, we continue to seek enactment of a new, funded, maritime program. This is necessary if we are to retain a U.S.-flag liner fleet in foreign commerce. We remain anxious to assist the Subcommittee and Congress in achieving this result.

Thank you for this opportunity to appear before you today.

[Prepared statement of Peter Finnerty may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much, Peter. Our next witness this morning is Mr. Richard Collins. Good morning, sir.

STATEMENT OF RICHARD COLLINS, CHAIRMAN, INTERNATIONAL COMMITTEE, NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

Mr. COLLINS. Thank you, Mr. Chairman. Hello, my name is Richard V. Collins. I am Director of Distribution for the Perrier Group of America. I am pleased today to represent the views of the National Industrial Transportation League. I am currently the International Committee Chairman.

The League represents many of the largest industrial and commercial concerns in the United States as well as numerous smaller

shippers, and I would like to ask that my written report be submitted for the record today, please.

Mr. LIPINSKI. Without objection, so ordered.

Mr. COLLINS. Thank you. The League also represents groups and associations of shippers in national and international transportation and our members are substantial users of all modes of transportation, including U.S. and foreign-flag ocean carriers.

League members export and import substantial quantities of products from all over the world, and are, therefore, greatly affected by maritime policy. Simply stated, League members are customers of the ocean transportation business.

I would like to point out also in my own case, I am a graduate of the U.S. Merchant Marine Academy at King's Point which is a government-funded Federal academy. I am also a licensed ship's captain, Coast Guard captain. I sailed with a subsidized American carrier for seven years and I also was an executive within a subsidized American carrier's operation.

The League welcomes the opportunity to comment on funding proposals for maritime reform, and the proposed new assistance program to provide government subsidies for the operation of 52 U.S.-flag ships through the year 2004.

This package would run over $1 billion. It would be derived primarily through an increase of 150 percent of the commercial vessel tax, so-called tonnage dues, that, again, has been around for many, many years.

We do not disagree with this. Senate Commerce Committee Chairman Hollings in the March 17 Congressional Record cited one of the justifications for introducing this legislation saying that "maritime reform is vital to the continued existence of the U.S. merchant marine which is so critical to our national interest."

We have no argument with that whatsoever. Unfortunately, however, the Administration's bill merely perpetuates failed policies of the past which have been predicated on government handouts.

Maritime reform must address wholesale changes which are necessary for the industry's long-term survival. These reforms must include limits on the amount of ocean cargo capacity allowed to be controlled and aggregated into ocean pricing cartels, sometimes known as ocean conferences. We need to include a prohibition on conferences interfering with contract negotiations between an individual ocean carrier and the U.S. importer or exporter.

We also need an end to the Federal Maritime Commission's contract filing requirements so the terms and provisions of ocean contracts will remain confidential, just as they are everywhere else in the world, as they are in most U.S. businesses.

The League strongly favors a minimum of economic regulation in the maritime industry. This can only sow seeds of growth for the U.S. carriers. Primarily, reliance on the forces of competition to encourage responsive, innovative pricing and services and the use of contracts to provide rate and service stability really are what is going to bring this industry out of its doldrums.

The United States must have a modern and efficient ocean transport system if U.S. businesses are to survive and have an opportunity to compete in the world marketplace. It is a global marketplace, gentlemen.

A truly efficient ocean transportation system must be one in which shippers and carriers are afforded the equal right to negotiate price and service levels on a fair and equitable basis without third-party interference.

These interference factors include over-regulatory zeal, byzantine regulations that both shippers and carriers must operate under and then of course the usual business rules that operate under the ocean cartel pricing systems.

This environment will not only enhance the ability of U.S. industry to meet customer needs but it will result in absolutely increased economic vitality of the carriers serving the U.S. trades.

U.S. companies today are generally not allowed to negotiate transport contracts with individual carriers. Although the '84 Act permits contracting, in practice there is no true negotiation between the shippers and the carriers.

They are forced under most circumstances to deal with an organized conference, a pricing cartel, which is exempt from U.S. antitrust rules. In many instances, the conference has no understanding of the importer's or exporter's needs, and in many cases the conference will simply publish as required discounts in a table format and then tell the shipper to take it or leave it.

Gentlemen, this is not the way to make an efficient fleet operate. We do not view this as contracting in the normal sense where parties may sit down and work out terms that are acceptable to each side.

These practices are in direct contrast to foreign companies that can and do enter into such situations. Thus, the foreign companies have a competitive advantage over the U.S. companies in entering into the foreign markets leaving U.S. companies at a distinct disadvantage.

Opponents to these reforms have stated that change would cripple the ability of U.S.-flag carriers to survive. This is the same argument that was made by various sectors of the domestic transport industry over 20 years ago regarding deregulation of the motor carrier and railroad industries.

The railroad industry, as we know it today, is prospering in a deregulated environment. For a complete understanding of the reforms that we have outlined, we suggest you refer to our attachment that was authored at the ACCO conference by our League Chairman Roger Wigen, the ACCO conference being the Advisory Commission on Conferences in Ocean Shipping.

Again, without inclusion of these economic reforms, we believe the Administration's bill is doomed to repeat the past mistakes of the last quarter century. Our belief is that the only way to solve the problem is through easing the regulatory shackles, not merely through increased funding.

It is our belief that if this measure is necessary for national defense requirements, then they should be paid by the Department of Defense. Thank you, Mr. Chairman.

[Prepared statement of Richard Collins may be found at end of hearing.]

Mr. LIPINSKI. Thank you, Richard, for your testimony. At this time, Ms. Bentley, do you have an opening statement you would like to——

Ms. BENTLEY. I do not have one at this time, Mr. Chairman.

Mr. LIPINSKI. Mr. Pickett, do you have an opening statement that you would like to express at the present time?

Mr. PICKETT. I do not, Mr. Chairman.

Mr. LIPINSKI. Our next witness this morning will be Mr. Philip Shapiro. Good morning.

STATEMENT OF PHILIP SHAPIRO, PRESIDENT AND CEO, LIBERTY MARITIME CORPORATION

Mr. SHAPIRO. Good morning, Mr. Chairman, how are you? My name is Philip Shapiro and I am the President and Chief Executive Officer of Liberty Maritime Corporation. By way of brief background, Liberty operates five U.S.-flag dry bulk carriers as well as a tanker. Our dry bulk carriers, constructed in South Korea during the mid–1980's under the Section 615 program, are among the most modern and efficient in the U.S.-flag fleet.

While Liberty competes vigorously in the international markets, our primary market is the transportation of U.S. Government food aid cargoes under the P.L. 480 and Section 416 programs.

As you know, under the cargo preference statutes, not less than 75 percent of food aid cargoes must be transported in U.S.-flag vessels, if available at fair and reasonable rates.

Liberty has long advocated the enactment of comprehensive maritime reform legislation and appreciates this Committee's and the Administration's efforts in this regard. While I cannot speak directly for all U.S.-flag bulk carriers, I know that they share my views in this area.

We in the bulk sector recognize that without maritime reform, our merchant marine will continue to decline. This will result in the loss of thousands of maritime jobs and the erosion of our national defense capabilities.

We must keep in mind, however, that the Administration's proposed legislation provides little if any direct government assistance to the dry and liquid bulk sector of our merchant marine. Comprising 45 percent of the U.S.-flag fleet, bulk vessels play an important part and role in the national defense of our nation carrying fuel, food, equipment and commodities to our troops abroad during wars and national emergencies as well supporting our skilled, readily available merchant marine manpower base.

That notwithstanding, the principal focus of the Administration proposal is a maritime security fleet program limited to liner vessels. Under H.R. 2151, while bulk carriers are not expressly excluded from the program, the effect likely would be the same under the legislation's priority scheme.

The principal benefit to the bulk sector in the Administration bill is not through any government program but instead through the elimination of the three-year wait rule for newer foreign-built vessels. From the bulk operators' perspective, even this provision is flawed, because it would discourage new ship construction by allowing used foreign-built, foreign-flag vessels, if constructed after the date of enactment, to be immediately eligible to carry preference cargoes.

This provision should be amended to allow only newly constructed foreign-built vessels immediately documented under U.S. law to carry bulk preference cargoes.

The Administration bill does not contain the beneficial provisions included in H.R. 2151 that would improve the cargo preference program by, for example, requiring the use of commercial-like charter terms. These provisions should be added to the final legislation.

Neither the foreign-build provision nor the cargo preference reform provisions would require any outlays by the government. Both, in fact, should reduce outlays by introducing more competition and commercial marketplace reforms to the cargo preference program, thus lowering the program's cost.

Notwithstanding our problems with the bias toward liner vessels in the Administration proposal and, to a lesser extent, H.R. 2151, the bulk industry supports enactment of legislation this year in the interest of the overall health of the U.S. merchant marine.

At the same time, we must oppose any provision which disadvantages U.S.-bulk vessels which brings us to the topic of the day, the Administration's proposed tonnage tax as a financing mechanism for the MSF program.

The tonnage tax would apply on a per vessel ton basis to both U.S.-flag liner and bulk vessels as well as foreign-flag vessels. It would apply to the first five entries a vessel makes into the United States from a foreign port.

As we understand the tax's somewhat ambiguous formula, the rate for bulk vessels arriving from points outside the Western Hemisphere would almost triple from 27 cents per ton to 71 cents per ton.

We estimate the increased tax would add approximately $315,000 per year to our current tax burden. As indicated, the tax would apply to both U.S.-flag liner and bulk vessels. This is the case even though liner vessels receive all of the benefits of the Administration's proposal through the maritime security fleet.

All the tonnage tax can do vis-a-vis the U.S.-flag bulk sector is hinder our revitalization, a goal directly at odds with maritime reform.

The primary market for U.S.-flag dry bulk carriers is the U.S. Government through the food aid programs. If the tonnage tax is enacted, one of two things, or a combination of these two things will occur.

First, we may be able to pass the cost of the tonnage tax to the government through higher rates, in which case no net revenue is realized by the government. Moreover, cargo preference opponents will surely blame us, not the government for the resulting higher rates.

Second, if we absorb the cost, the bulk sector is a net loser under maritime reform because bulk vessels cannot participate in the program.

Ideally, funding for the program would come from the defense budget. From DOD's perspective, the benefits of a capable U.S.-flag merchant marine far outweigh the cost of the MSF fleet.

We recognize, however, that the DOD-financing mechanism is unlikely at best, particularly in light of Secretary Peña's statement earlier this week that the Administration opposes DOD financing.

Assuming that we must address the financing issue in terms of a tonnage tax, we recommend the following: Vessels carrying government-generated cargoes under the various cargo preference laws should be exempt from the tax.

As noted, imposing the tax on vessels carrying preference cargoes will likely result in some combination of increased rates paid by the government and losses sustained by U.S.-flag operators. This exemption could apply to both U.S.-flag and foreign-flag vessel owners.

To the extent the addition of this exemption results in less revenue, we recommend that the number of voyages required to qualify for the existing current tonnage tax exemption, presently at five, be increased to offset the revenue loss, or eliminated altogether.

The revenue generated in excess of the cargo preference offset should be used to enlarge the program to include bulk vessels.

In closing, let me just say, Mr. Chairman, that I appreciate and support the efforts of this Subcommittee and the Full Committee, in particular Subcommittee Chairman Lipinski and Congressmen Bateman, Pickett, and Taylor, as well as, Congresswoman Bentley, Chairman Studds and Congressman Fields, to revitalize our industry.

Maritime reform legislation, although currently enjoying broad support, still has a long way to go. We look forward to working with you toward enactment of this crucially important reform program this year. Thank you very much.

Mr. LIPINSKI. Thank you, Philip. Our next witness this morning is Mr. John Stocker. Good morning, John.

STATEMENT OF JOHN STOCKER, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. STOCKER. Good morning, Mr. Chairman. Thank you very much. My name is John Stocker and I am President of the Shipbuilders Council of America, which is the national trade association representing American shipyards.

Mr. Chairman, on behalf of American shipyards, I would like to echo the views of my colleagues to thank you for your support and to also recognize that you certainly have had the support of a number of Members of this Subcommittee including Mr. Pickett, Mr. Taylor, Mr. Bateman and Ms. Bentley in pursuing a program that indicates your deep concern about the future health of the American shipbuilding industry, and we do appreciate that.

I would ask that my testimony be entered into the record and I would like to make a few oral comments in regard to that testimony. I appreciate the opportunity this morning to comment on funding options for maritime reform.

First of all, let me say that we have acknowledged and appreciated the fact that this Subcommittee is mindful not only of the needs of the U.S.-flag operating community, but the needs of U.S. shipyards as well.

Unfortunately, this was not the case in 1981 when the U.S. Government unilaterally terminated the commercial ship construction differential subsidy program in the United States, and then implemented special legislation, the Section 615 exemptions, that encouraged U.S. shipowners to bypass American shipyards and take

advantage of rapidly escalating foreign shipbuilding subsidies and ship dumping practices.

The combined impact of this unilateral termination, the Section 615 waivers, international ship dumping practices, and the massive subsidy practices that we have seen over the past 15 or 20 years have completely devastated the commercial shipbuilding industry in the United States.

Mr. Chairman, this has forced the closure of a number of shipyards across the country throughout the last 10 years with a loss of over 80,000 shipyard jobs. Surviving American shipyards obviously turn to the U.S. Government as their only source of business during the rebuilding of the U.S. Navy.

However, Mr. Chairman, we do have a concern that history might repeat itself. We know that this Subcommittee is sensitive to the contribution that our shipyards make to the economic well-being of the country and to the importance of having a domestic shipbuilding base available to meet our defense requirements.

Our yards cannot stay open without sufficient workload. If they are forced to close, the impact will be felt not just at the waterfront and the shipbuilding community but across the country as a whole as our suppliers will suffer as well.

We currently estimate that with the decline in defense spending that another 180,000 Americans in shipyard and shipyard supplier companies will lose their jobs and will be out of work by the end of this decade.

This means, Mr. Chairman, that coupled with the ill-advised decision of 1981 and the decline in defense spending our industry and our supporting base will have lost more than 300,000 jobs since 1981.

In addition, we have now learned as a result of analysis performed by the Navy is that they are now becoming increasingly concerned as they face the future that they will have insufficient production capacity to meet their future needs, particularly in the years beyond 2005.

I would like to comment briefly on H.R. 2151, the Maritime Security and Competitiveness Act which passed last year. We believe that this is a better vehicle for maritime reform than is the case with H.R. 4003.

Our industry enthusiastically supported 2151 which was carefully crafted by this Subcommittee to help the U.S.-flag operating community without being detrimental to the U.S. shipbuilding base. Because the Members of this Subcommittee understand the impact of foreign subsidy practices on our industry's ability to compete, it had the foresight to incorporate into H.R. 2151 provisions which deny operating subsidy eligibility for vessels contracted for in subsidized foreign yards before May 19, 1993, and also requires a shipowner who wishes to receive operating subsidy on a vessel contracted for in a subsidized foreign yard after May 19, 1993, to give U.S. yards a chance to bid on the vessel first.

Most importantly, the Subcommittee incorporated a program known as Series Transition Payments into H.R. 2151. The purpose of this program is to assist U.S. yards as they transition from one-of-a-kind production that we have seen over the past few years in

building for the Navy to series construction which characterizes the work of the commercial marketplace.

STP will help close the gap between production costs for a series of ships built in a U.S. shipyard versus a foreign shipyard. One of the great problems we will face over the next 10 years, Mr. Chairman, is trying to catch up in a marketplace that has been dominated by foreign-subsidized shipyards and all the advantages that they have had from volume production.

STP would provide us with a short-term aid to allow us to restructure our operations to convert from building military vessels to commercial vessels. In essence, STP would apply DOT-approved series construction projects at U.S. yards transitioning into the commercial market.

Payments for a specific project would decrease over time, that is, each payment would decrease with every follow on ship as production is standardized, run more efficiently and the program has an inherent sunset provision in it, it would end within a very short timeframe, perhaps as few as three to five years.

In regard to H.R. 4003, we were extremely disappointed to see that the Administration's maritime security program included two aspects that we find troubling. The first is the unlimited build-foreign provision.

The Administration's plan would give U.S.-flag ships authority to get operating aid and cargo preference privileges for ships built in subsidized foreign yards immediately upon passage of the legislation.

As you know, Mr. Chairman, we have been conducting negotiations with our trading partners on shipbuilding subsidy practices. Those negotiations have failed and in essence what this would be creating is a U.S. policy to reward those very countries that have failed to discipline their subsidy programs in agreement with the U.S.

The second negative aspect of the Administration's plan is the absence of funding for an STP-type program. From the point of view of our shipyards and the 180,000 Americans employed by the shipyards and shipyard supplier companies, the combination of no funding for STP plus build-foreign rights for U.S.-flag operators looks like 1981 all over again. Only, this time our industry will disappear due to the collapse of the military workload.

Because of the concerns I have just articulated, we believe that a funding mechanism for maritime reform should include STP for shipyards as well as operating subsidies for the U.S.-flag fleet.

I understand that Secretary Peña was asked earlier this week by Senator Hollings to do further analysis on whether it would be workable to increase the tonnage tax on ships calling at U.S. ports to pay for STP as well as the operating subsidy program.

I understand that the Administration has other funding options that they considered as well. These options should be revisited.

Regardless of what funding mechanism is ultimately adopted, we now believe that they must be combined to fund both the operating subsidies and STP simultaneously. By this I mean that assigning one funding vehicle for operating subsidies and a separate funding vehicle for STP would not be satisfactory.

We have a historic opportunity for both segments of the maritime community to unite and support each other. By doing so, we lessen the difficulties that each segment would face by going it alone, and strengthen the chances of getting funding approved by the Congress.

That ends my statement, Mr. Chairman. I will be pleased to answer any questions.

[Prepared statement of John Stocker may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much, John. Our final witness this morning is Ms. Moya Phelleps. Good morning, and I hope I did fairly well with your last name.

STATEMENT OF MOYA PHELLEPS, EXECUTIVE DIRECTOR, COAL EXPORTERS ASSOCIATION, AFFILIATE OF THE NATIONAL COAL ASSOCIATION

Ms. PHELLEPS. Yes, you did, Mr. Chairman. Mr. Chairman, Members of the Subcommittee, I am Moya Phelleps, Executive Director of the Coal Exporters Association and Vice President of International Trade for the National Coal Association.

On behalf of NCA and CEA, thank you for the opportunity to testify today on funding proposals for maritime reform. I ask that our full written statement be included in the record.

Mr. LIPINSKI. Without objection, so ordered.

Ms. PHELLEPS. NCA represents coal producers, exporters, equipment manufacturers, resource developers, coal-burning utilities and transporters of coal. Producer members represent approximately 70 percent of the coal produced in the U.S.

Coal exporter members represent coal producers that export coal as well as coal brokers. These companies represent approximately 80 percent of the coal that is exported from the United States.

In 1993, the U.S. was the second largest coal exporter worldwide, exporting 74 million short tons of coal to more than 40 countries including Canada. In 1993, U.S. coal exports contributed more than $3.1 billion to the positive side of the U.S. trade balance. In 1992, coal exports were 102 million short tons valued at $4.2 billion and coal was the largest commodity exported in terms of tonnage and the third largest after corn and wheat in terms of value.

While coal is not exported from all coal-producing states, its economic impact is felt nationwide. More than 16,000 direct coal mining jobs and an additional 130,000 jobs in U.S. companies support the production and movement of coal to export.

Coal exports are critical to the economies of West Virginia, Virginia, Kentucky, Pennsylvania, Alabama, Utah, Alaska, Louisiana, Maryland, and Ohio. Coal exports move through the ports of Hampton Roads, Baltimore, Los Angeles, the Great Lakes, Mobile and New Orleans.

According to a Pennsylvania State University study, commissioned by NCA, the direct economic impact is $21 billion annually and $81 billion in total activity generated in the U.S.

The U.S. coal industry understands the importance of a U.S.-flag fleet and its role in our country's national security. Our opposition to H.R. 4003 centers upon the vehicle that has been chosen to pay

for the maritime security program, an increase in the vessel tonnage tax.

We are all aware of the history of this tax. Three years after the tax was raised 450 percent, the Administration proposes to increase it another 150 percent. After reviewing the information provided by the Maritime Administration, the 24 cents and 71 cents rates represent 167 percent and 163 percent increase respectively. The 150 percent increase should be 22–1/2 cents and 67–1/2 cents respectively.

Overall, bulk carriers provide—bulk commodities provided 46 percent of the vessel tonnage tax revenues in 1992. Coal, grain, minerals, wood, paper, fertilizers and iron and steel contributed more than $43 billion to the positive side of our balance of trade. All of these exports will be significantly impacted by the tonnage tax. However, I am here today to focus on coal.

What does this mean to U.S. coal exports? It means that U.S. coal exporter and in particular our customers are being asked to pay for a U.S.-flag fleet that will not have any bulk carriers and if these vessels were permitted into the program, in all likelihood, they would be too small and too expensive to be competitive in today's world coal trade.

It means, in the case of coal, this is an export tax since vessels arrive from foreign ports empty. It means that 88 percent of U.S. coal exports will face increased costs of between 14 cents and 18 cents per ton. This is in addition to the 9 cents we currently pay.

It means 25 percent of our coal exports to Canada will face an increased cost of 7 cents per ton. This is in addition to the 5 cents we currently pay. Attached to our statement is a table that indicates several recent movements of U.S. coal exports and the additional vessel tonnage costs associated with these movements.

The international coal market is extremely competitive and contracts can be won or lost by small fractions of a dollar. For example, this year's business for Europe and South America has yet to be completed and from all reports it is very possible that contracts may be won or lost by very small amounts.

Considering this competitive environment, an additional cost for U.S. coal, or the potential, provide reasons for customers of U.S. coal to look elsewhere for coal supplies.

Since 1991, when the first increase in the tax took effect, U.S. coal exports have declined by 46 percent. While the vessel tonnage tax cannot be pinpointed as the reason for our decline, it certainly makes it more difficult for U.S. coal exporters to compete in the international coal market where other countries subsidize their coal industries and actively promote exports.

It is rather ironic for an administration that has a well-stated policy of promoting exports to tax exports in order to pay for a U.S.-flag fleet. According to the Department of Commerce, the trade deficit in 1993 was $132.5 billion. This represents a 38 percent increase from the 1992 level of $96 billion.

The Energy Information Administration in its Annual Energy Outlook in 1994 show coal exports increasing to 133 million short tons in the year 2000 and 152 million short tons in the year 2010. Actions such as a 163 percent increase in the vessel tonnage tax will clearly disadvantage U.S. coal exporters.

The U.S. coal industry urges that alternative sources of funds be examined other than taxing U.S. exports and in particular U.S. coal. Thank you very much.

[Prepared statement of Moya Phelleps may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much for your testimony here this morning. I want to thank everyone for their testimony at this particular point.

I recognize the Ranking Minority Member of the Subcommittee to start the questioning this morning. Mr. Bateman.

Mr. BATEMAN. Thank you very much, Mr. Chairman. One of the things that one hears is that the shipbuilding component of maritime reform is not particularly essential because we are likely to get some agreement with the OECD nations on doing away with foreign shipbuilding subsidies.

It is my sense of it that we do not appear to be close to any agreement at all, but I think I am also correct that even if we had an agreement at an umbrella level, all the provisions of that agreement would not become effective until all of the participants had ratified the agreement which leads me to a concern that even if you had an agreement by delaying the ratification process, American shipyards would be out of business before they got around to completing the process, and then they would be very happy to have the agreement implemented with the American shipbuilders eliminated from any participation in the world shipbuilding market.

John, do you have any light that you can shed on this and whether that is indeed a problem?

Mr. STOCKER. Mr. Bateman, this has been recently disclosed to us that the procedure for ratification of such an agreement could be a lengthy one. Under the provisions that are in the draft text currently, each of the countries that are participating in the negotiating process would have to first sign the agreement and then deposit a ratification instrument in Paris at which point the agreement would enter into force.

There is no timetable within the agreement that would require countries to in fact ratify, and it is our understanding that ratification would entail the termination of programs or at least an indication that programs would be terminated upon entry into force of the agreement.

Since the United States is the only country that has ever identified its programs, it will also be an uncertainty as to whether or not other governments are in fact complying with the terms and conditions of the agreement.

And, as you noted, Mr. Bateman, very correctly in fact, that we are a long way away from having an agreement at the current time anyway so this is a bit of an academic discussion. That is why STP is important to us.

If we could have reached an agreement four or five years ago, perhaps we would not have needed STP. The problem is that five years have gone by. Our industry has watched our workload drop. You have seen, Mr. Bateman, the projections that indicate we will lose two-thirds of our workload by 1997, and in fact we are beginning to run out of time, and I am afraid that your view that the

other countries are waiting for us to go out of business before they would allow agreement to kick in is a correct one.

In fact, I have a recent magazine article here from Europe that indicates that they are very concerned about U.S. capacity coming on line in the marketplace and destabilizing the marketplace so I think that concern is well-founded. Your concern is well-founded.

I should also note, and this is stated in my testimony, that of course if an agreement is ever in fact signed and ratified, obviously the STP program would be terminated in compliance with that agreement.

Mr. BATEMAN. Follow-up on that. During the years that discussions have been underway, negotiations looking toward an agreement, doing away with shipbuilding subsidies, have other countries been stable or maintaining a status quo or even during the period of negotiations have they launched out upon new forms of subsidization or restructuring of the relationship between their governments and their shipbuilding industries?

Mr. STOCKER. In fact, Mr. Bateman, restructuring assistance has been something that has been routinely agreed to by the negotiating parties as this process has been ongoing. The most famous of such restructuring proposals is obviously the one that is being undertaken in Germany to modernize the East German shipyards, a very significant program, I might add, perhaps as much as $4 billion that has been dedicated by the German government to this restructuring effort.

I might also note that there are now charges being filed in German that a significant portion of that subsidy has in fact migrated to the West German shipyards to aid in their pricing behavior, particularly on container ship construction.

Korea was also permitted to put into place a $1 billion program to offset the losses suffered by their shipyards during the 1980's when they were aggressively dumping Korean-built ships on the market.

And just recently Belgium announced that they were going to provide half the working capital for the acquisition of one of their shipyards by a Dutch company so it is pretty clear that while we have been standing still, and by the way our employment basis dropped by 15 percent during the past five years of negotiations, so the other side's strategy is working very well.

If you talk long enough, we will go away. Unfortunately, our trade negotiators are playing right into their hands. During this process not only have we lost people but other governments have put new programs into place.

So certainly there would be nothing unethical, immoral or distasteful about the United States deciding that it was not going to allow this silly game to go on and that it would step in to insure that there is a shipbuilding base available to take advantage of whatever the benefits of the trade agreement might be.

Mr. BATEMAN. Mr. Chairman, I will have some other questions for remaining witnesses but seeing the red light, and if I cannot stay here long enough, I would ask consent to submit them for the record.

Mr. LIPINSKI. Thank you, Mr. Bateman. The Chair now recognizes Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman. To try to get some perspective on the relative importance of this tax compared with other costs associated with calling at a particular port, for example, if a vessel comes in and needs a pilot, usually it needs tugs, it has to pay certain docking fees and there are other fees and taxes.

Can someone kind of enlighten the Committee on the relative size of these items compared to what the tonnage tax is?

Mr. FINNERTY. Mr. Pickett, I will take a try at that. I would say that one must first remember the way that the tonnage tax comes into play based on the first five calls at U.S. ports in the course of each year.

The way it has been explained to me is that it causes different impacts for different types of shipping. That is to say that a regular service, such as liner shipping, which has ships frequently calling at much the same ports in a regular sequence will make those repeated calls and pay repeatedly up to the five and then thereafter it does not apply.

In the case of bulk vessels and certain other types of vessels, they do not repeat voyages as often, I am told, I do not know much about bulk and I will defer to others on the panel, so that it is entirely possible that the bulk vessels coming from many different places in the world would have to sustain those costs on the voyages to the United States which might only number less than five each year so they would be charged on every visit.

With respect to these other charges such as a pilot's charges or wharfage or dockage or the charges for services in the port, I would imagine that if you added such things together, that they might constitute a significant amount of money. I do not imagine that they would constitute the same impact with respect to every vessel because the size of the ship is very important in calculating the tonnage tax.

A very large tanker or a very large container ship because of the greater interior capacity of the vessel, is obviously going to pay a much larger fee whereas certain of the other charges might not be calculated in the same way. They might be based on a different measure and could be therefore less significant.

Mr. PICKETT. In the case of a tonnage tax, it is assessed against the operator, is that——

Mr. FINNERTY. That is correct. As I understand, it is assessed against the operator of the ship and it is based upon, in effect, the size of the vessel. The larger the size of the vessel, the greater the charge. That is what the reference is to the ton when it speaks of vessel tonnage.

Mr. PICKETT. And you represent the group of people that would actually be—as far as the liner vessels are concerned, you are speaking for these people that would actually be paying this fee during the port calls.

Mr. FINNERTY. Well, yes, sir, we would be paying the fee, but of course the fee will apply to all ships calling at U.S. ports, and it is the foreign-flag vessels that carry something like 96 percent of the imports and exports in the country. So while we are paying, there are of course many, many other ships that would be impacted by the change in the tonnage fee.

Mr. PICKETT. Does anyone else want to comment on this?

Mr. SHAPIRO. Mr. Pickett, if I could add some information. From the bulk standpoint, the increase in the tonnage tax will cost bulk operators approximately $15,000 more per visit to a U.S. port.

As Peter pointed out, liner vessels, because of the nature of their trade where they are going port to port back and forth at relatively fast speeds, are making many more entries into U.S. ports, so their contribution would terminate after their fifth visit to a U.S. port which might happen within three months.

For bulk operators who are on much longer haul carriages, we typically will not be in the United States more than five times so we would be taxed each time we would come into the port and the primary beneficiaries of the tonnage tax funding mechanism would be the liner vessels, and they would be taxed a very small proportion of the times that they come into the port.

Mr. PICKET. Yes, sir, do you want to respond?

Mr. COLLINS. Just very briefly. As a shipper, we are of course the ultimate payer of these fees. I would like to point out that on the current operation that I run, we pay fees to the government in order to examine our tariffs at the Federal Maritime Commission.

We pay our maintenance fees allegedly to dredge the harbors of the United States, however, in many cases those harbors are not dredged and there is a surplus of funds in that account.

We pay wharfage fees to the carriers depending on the particular port you are calling on. We pay a user charge in certain ports in the Northeast. We pay a customs user fee for the privilege of having customs assign duties to us. We pay to the carrier an internal handling charge on every load that comes in on a liner vessel.

In my particular instance, that represents over 40 percent of my ocean freight cost on a port to port basis.

Mr. SHAPIRO. Mr. Pickett, if I could just finish my answer. I neglected to mention to you that I would estimate that a typical bulk carrier coming in to the United States will pay somewhere approximately about $60,000 in port service fees and port expenses.

This tax would obviously add another $10,000 to $15,000 per call to that amount which I guess we can all figure out is anywhere between 20 and 25 percent.

If I also might just add one thing in response to Mr. Bateman's question, I would just like to go on record as saying that the bulk companies here support the STP program. We support any help and aid that can be given to American shipyards.

In fact, indeed, our position on limiting the program from the outset to only newly constructed vessels specifically contemplated that there was the future ability of U.S. yards to build bulk vessels for the cargo preference trade and, in fact, I just want to be emphatic about our support for a program for the shipyards. Thank you.

Mr. PICKETT. Anyone else wish to comment on the question that I asked? Mr. Chairman, if you will indulge me to see if anyone else wants to respond.

Mr. LIPINSKI. I am indulging you if anyone wants to.

Mr. PICKETT. I guess they are through. Thank you. Thank you, Mr. Chairman.

Mr. LIPINSKI. The Chair now recognizes once again Mr. Bateman.

Mr. BATEMAN. Thank you, Mr. Chairman. Let me first make some comments or observations, and then I would be happy to have anyone on the panel respond. I want to make it clear where this Member is coming from with reference to maritime reform.

I want, as I think all the rest of my colleagues on the Committee, to have maritime reform. It is very important to this country and in its interests that we do so. I do not believe that it is going to be feasible to do so without a shipbuilding component to that reform.

And that compounds the problem of how do you pay for maritime reform if you cannot get it under our pay-as-you-go rules that we have to deal with without providing a source of revenue.

The focus of discussion as you have focused upon in your testimony has largely been on tonnage tax. I am certainly acutely aware of the incredible percentages of increases that have already been inflicted and now we are talking about further increases, and I am certainly sensitive to it.

What I would like, given the difficult necessities under which we operate, is for any and all of you to furnish to me, to the Committee, any way that you feel any version of a tonnage tax could or should be restructured in order to do greater equity among all of the, not competing, but all elements of the maritime community.

We do not want something that comes down disproportionately and inequitably on bulk carriers, on coal, on grains. We do not want it coming down inequitably upon container operators, we do not want it coming down unfairly on tanker operators.

If you have suggestions as to how we could restructure such a tax, I would like very much to see those suggestions. I would also like to see any other suggestions you have as to alternative sources of revenue and maybe we got to think in terms of whether or not the tonnage tax could be restructured to make sure that all elements of the maritime community are paying their dues if some are relatively unaffected or not affected at all.

The other thing that I suggest is on this Committee there would be little dissent from the view that all of this proceeds from the importance of a viable merchant marine to our national security which speaks of a Department of Defense interest, and that is where it begins and ends is the rationale for what should be done, should not the Defense Department be paying a larger part of the cost?

As you know, last year our Chairman and I and with the cooperation of others on this Committee and Members of the Armed Services Committee did get loan guarantees for export shipbuilding, and it is hoped that this would be helpful to our domestic shipbuilding industry, and we did get that out of the defense pledged from the Defense Economic Conversion funds.

We were not successful last year in having any of that economic conversion money in the defense budget devoted to funding STP. I have initiated inquiries and have been trying to find ways that we might succeed at that this year, but it does not look encouraging in view of the fact that most of the money that is in the Economic Defense Conversion budget is already obligated, and there is not going to be enough money to meet that which it is obligated for and to do something else so it is not encouraging.

What I would suggest to you all is to use your influence and persuasive powers on the Administration to perhaps relook whether or not domestic shipbuilding is so important to our national security and the jobs that would be protected by economic conversion money under the Defense Department being utilized to promote American domestic commercial shipbuilding is not something worthy of their supporting and finding a way to do.

Having talked longer at you than I meant and perhaps having sounded very preachy, I would invite your comments today and most especially any further observations you might develop over the next several days or the near timeframe in which we will have to act.

Mr. LIPINSKI. Whoever wants to comment can comment this round until the red light goes on. Go ahead.

Mr. TURNER. Mr. Chairman, I concur with your remarks and Mr. Bateman's remarks on the state of the industry and in particular I would like to point out that we stand together with our brothers and sisters in the shipbuilding side of this equation. We always have and we always will.

We think that we concur with the political belief that a shipbuilding component needs to be part of a maritime reform program. All of that given, I have got to say something. If we do not get something done this year, right now, maritime labor walks out of the union hall, turns off the lights and that is it. There will be no more U.S.-flag maritime workers aboard ships period.

Mr. LIPINSKI. Right now I just saw the red light go on so we have to go to Mr. Pickett. Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman. I feel the same way that my colleague, Mr. Bateman, does about the importance of insuring that there is a component in this process to bring the shipyards into the process.

I have repeatedly stated in remarks associated with the activities of this Committee that we got to maintain the maritime industry. We cannot survive with just one piece of it because I do not think one piece of it is going to meet the requirements of our nation.

We need the labor, we need the shipyards, we need the liner operators, we need the shipbuilders, we need the suppliers. We need all the components that go into making up a maritime industry, and I think it is essential that we not believe that we can solve the problem by focusing on just one aspect of maritime industry.

But it brings us back to the fundamental question of being the budget environment that we now find ourselves in there is no way to achieve much unless we are able to meet the requirement of pay-as-you-go. That is, if there is going to be a program, it has got to be paid for and we have got to look at realistic ways in which to meet this requirement.

Mr. Turner, as you stated, in my view it is vitally important that something be done. There has got to be some movement, some little indication that this country is serious about its merchant marine, and I give the Chairman and other Members of the Committee great credit for the progress that has been made but without somebody giving some and without some pain associated with collecting the revenues necessary to do what has to be done, there will be no progress not this year, not next year, not in the foreseeable future.

And we cannot simply live off remarks that are made in this room, we got to have some tangible programs to do things, and that means money. And maybe the program or the proposal that the Committee is—that the Chairman has opened up and that I certainly support in part of what the Chairman is attempting to do but I am open, as Mr. Bateman has said, to other suggestions of ways to meet this requirement of paying for the program that we need.

And we need some input on this. We cannot simply sit here and dictate what that ought to be. We have put something out on the table and we badly need the comments and input and ideas that you may have and that the industry may have on how to meet this commitment. And I would like some response on that. If there is a better mousetrap out there, we would like to know about it.

Mr. STOCKER. Mr. Pickett, at least on the part of the shipbuilders council you will have our support and input on possible alternative realignment of the tonnage tax proposal to make sure that it is equitable among all the segments that call at U.S. ports.

In fact, we have been in discussions with some Members of the Committee staff about possible alternatives and we are certainly looking at that.

Let me also just say on the record that the amount of funds that would be needed to make an STP program successful at gaining market access, let me underline that, gaining market access, are fairly small, given the general range of things.

I do not want to quote Everett Dirkson that a billion here and a billion there is pretty big money after a while but we are talking about probably $200 million in the first year and over a five-year program somewhere in the neighborhood of $500-$600 million in total would be enough to open the door, get us into the market and allow us to catch up to this enormous advantage that our foreign competitors have had particularly as a result of the last five years of dallying with us in the negotiating process.

Obviously, we are sensitive as you are to the tightness of the budget environment, and certainly we do not want to propose to you something that is not workable, given the overall scheme of expenditure and revenue-raising exercises that the Congress has to go through.

Mr. Bateman, in regard to your comment about the defense budget, that is certainly something that we are looking at. As you know better than I do, the defense budget is underfunded for the next five years, perhaps by as much as $26 billion. That will be difficult, however, this idea of trying to identify a better mousetrap may be possible even within the confines of the defense budget, and we would like to talk to you about that.

Mr. PICKETT. Anyone else care to comment?

Mr. FINNERTY. Mr. Pickett, if I could just respond first to tell you that I welcome the opportunity to respond to both you and Mr. Bateman, and we certainly will forward some suggestions to you and would be anxious to work with the staff to try and come up with ideas and alternatives.

The one point I would like to make at the moment though as I did allude in my previous remarks to our support for the concept

of the Department of Defense paying for part of the program to support the U.S.-flag merchant marine.

It is uncontestable that the Defense Department stands to benefit greatly by the continued operation of U.S. shipping. Without detracting in any way from the expansion and the present building program associated with the build-up of defense sealift, because that is needed and it should go forward, when one compares the additional sealift that can be provided by the merchant marine, it is without question the most cost effective alternative available. It is the least costly, if you will, provision of sealift for purposes of defense, and it should be added to the type of sealift program that the Defense Department presently has underway.

When one looks at that aspect thinking of contingencies, when one looks at the regular peacetime movement of defense cargoes and understands the relative bargain that the Defense Department continues to enjoy by the U.S. merchant marine's modern regular ocean service to foreign locations, it is astounding that DOD can continue to claim that they do not benefit from U.S.-flag shipping, and they have been getting away with that.

Mr. LIPINSKI. Mr. Pickett, your time is up. We will get you again on another round. Now we have to recognize the number one champion in America of the merchant marine and shipbuilding industry, Ms. Bentley.

Ms. BENTLEY. Thank you, Mr. Chairman. I associate myself, first of all, with the remarks of both Mr. Bateman and Mr. Pickett. And, Mr. Finnerty, I am glad that you touched on the Defense Department's use of merchant marine ships.

Mr. Collins, you said in your statement that since the types of ships earmarked for this legislation would be of little or no use to them, meaning DOD, in times of a national crisis, meaning of course the container ships. Is that what you were referring to?

Mr. COLLINS. Yes, ma'am.

Ms. BENTLEY. Let me point out to you that going back a few years to the Vietnam War, I happened to be over there with then Under-Secretary of the Navy Baldwin and the ships were lined up 100 strong out in the river, the Saigon River, and the American ships were lined up there because we did not have container ships bringing the cargo in.

And it was when he saw that and when we saw that, that he pushed for container ships to be used in bringing the supplies in to our troops over there. And maybe in the first thrust of a Defense Department invasion or something you need the roll-on, roll-off ships but the supplies that go on interminably to back them up come on container ships.

And it was only because we got containers moving then that we were able to break that long line of ships waiting there, OK? Thank you.

Mr. COLLINS. Ms. Bentley, I respect your remarks. I was probably on board one of those merchant ships in Vietnam. I sailed in and out of Vietnam for six years both as a cadet in the King's Point Merchant Marine Academy and later on as an officer with a subsidized carrier onboard a ship that was built with CDS funds so I——

Ms. BENTLEY. What line were you with—what steamship line were you with then?

Mr. COLLINS. Lines out of New Orleans.

Ms. BENTLEY. And Likes had an awful lot of ships there, and they were backed up a long time.

Mr. COLLINS. Absolutely. And I do appreciate your remarks. I do have some experience in that, and I think what I am saying is that I personally think we do need a strong U.S. merchant fleet but I think there are other ways to provide for the fleet in addition to the Administration's proposed funding program.

It is my strong belief, both having been a ship's officer as well as an officer in a subsidized company in New Orleans, Delta Lines, which no longer exists unfortunately, as well as a cargo shipper today that by easing some of the regulatory constraints that we must operate under both as carriers and shippers that a tax alone is not going to solve the problem.

Twenty years ago I was involved in a decision to sign an ODS contract with this company and it was well known to the staff that this was the final contract we would see for ODS operations within our group. This occurred in 1974, and today it is 1994 and we are debating the same thing that we did 20 years ago. Thank you.

Ms. BENTLEY. I am not saying that other changes are not necessary. I just want to point out that the container ships are useful by DOD, and you may have been on some of those ships waiting out there in the Saigon River at that time.

I want to ask any one of you who wants to answer about the proposed tonnage fee increase because I have heard some concern from the ports that we will lose more cargo. It will be diverted up to Canada.

Has anybody made any study of any kind as to how much of a diversion goes on today with the present tax because there are some claims that we are losing cargoes up there now and that this would just be multiplied if we increase the tonnage tax. Yes, Peter.

Mr. FINNERTY. Ms. Bentley, I could tell you first, as you know, our company has for many, many years been quite concerned about cargo diversion and have been very troubled by some of those problems in the past.

I was present earlier in the week when that very question was put on the Senate side to Admiral Herberger, and I understand that the Department of Transportation and the Maritime Administration have done a detailed study when they put their proposal together. I did hear them volunteer to provide that information to the Senate staff. I do not have that information, but apparently a detailed study has been done.

Mr. LIPINSKI. Let me just interrupt for one moment. Last week Secretary Peña said that it had a minimum effect, number one, and, number two, we did invite the port people to come here and testify today but they chose not to do so.

Ms. BENTLEY. Oh, really? That is interesting. OK. Then maybe it is minimum and they do not want to protest it. Go ahead.

Mr. SHAPIRO. Ms. Bentley, may I respond to one thing? With regard to Mr. Collins' statement, I understand that the shippers are concerned about the impact of the tax but I would like to point out that America as a super power pays to keep the sea lanes of the

entire world open and that is a tax which is falling on only American citizens. No foreign purchasers or distributors are subsidizing that in any way.

Ms. BENTLEY. Explain that again.

Mr. SHAPIRO. Well, in order for foreign ships——

Mr. LIPINSKI. Let me interrupt just for a moment. Turn off the red light. This is Ms. Bentley's first round over here. We are going to give her some extra time.

Ms. BENTLEY. Thank you, Mr. Chairman.

Mr. SHAPIRO. Let me start with this premise, that the trade which goes on on the oceans of the world goes on today because there is an American super power Navy presence which we pay for as U.S. taxpayers.

To the extent the United States does not spend money on insuring that the sea lanes stay open for foreign-flag vessels to use as well as American-flag vessels, there is no trade which would go on in various areas of the world.

Our rates as American rates are never going to be equal to foreign rates. Why? Because we pay U.S. taxes, we pay corporate taxes, we pay—individual seaman pay taxes, we have FICA, fed taxes, state taxes, withholding. We already have to pay double to our people to give them the same take-home pay as our foreign-flag competition.

With regard to the preference arena, we are not even competing with all foreign-flag competition, we are competing with flags-of-convenience where a 36-man Bangladeshi crew is paid $600-$650 a day. That is $18 a man. It violates every fair wage law that we have in the United States as well as our labor standards.

There is no health care with that, there is no ERISA, there is no retirement, so we have to really look at this as what are the benefits of a crew to people who utilize shipping in the United States and around the world.

I believe though the tonnage tax may need some fine-tuning so that bulk carriers are not disproportionately hit by this tax as opposed to liner vessels. I think the concept is a good concept.

When you stepped out before, I reiterated the bulk carriers' support for new construction only so that shipyards would be able to compete, American shipyards would be able to build bulk carriers for the cargo preference trade as well as the international trade, and I mentioned our support for the series transition payment program.

There are numerous ways that we may be able to raise money but it comes back to one specific concept and that is that the Department of Defense can find a billion, a billion and a half dollars to build five ships but it cannot find one penny to support 52 ships that it will depend on in a time of a national emergency.

Ms. BENTLEY. I might point out to you, Mr. Shapiro, since you brought up about the taxes that according to Congressional Research Service, 38 cents out of every dollar spent in this country goes to those taxes you are talking about, and that is a 38 percent disadvantage that we have in competing against any foreign-flag ship or any foreign-flag operation of any kind.

Mr. SHAPIRO. And that is just on wages alone, Ms. Bentley.

Ms. BENTLEY. Yes.

Mr. SHAPIRO. We have other medical care benefits and other fringe benefit costs which we are required by law to provide so it raises the differential to an even greater amount.

Ms. BENTLEY. Strictly the taxes, the unemployment, the FICA, etc., etc. OK.

Mr. LIPINSKI. Ms. Bentley, your time is up for now, Ms. Bentley.

Ms. BENTLEY. You have been so generous. Thank you, Mr. Chairman.

Mr. LIPINSKI. The Chair recognizes Mr. Bateman.

Mr. BATEMAN. Mr. Chairman, I have no further questions at this time.

Mr. LIPINSKI. The Chair recognizes Mr. Pickett.

Mr. PICKETT. Mr. Chairman, I am not sure that any of the panel remember the last question that I proposed but if anyone wishes to comment. I think someone had their hand up and wanted to make a response and did not get a chance to. If you wish to make a response to that previous question at this time, I would very much appreciate it.

Mr. LIPINSKI. Do you want to restate your question perhaps?

Mr. BATEMAN. The question had to do with the fact that we must provide a way to get the money if we are going to have any kind of a maritime program and sort of lay the floor open for any suggestions and recommendations or thoughts and comments that our people here may have to help us along the way.

Mr. SHAPIRO. Mr. Pickett, I would like to tell you that I would be pleased to provide you with some possible sources of funding in a paper, and I will try to get that to you within the next few days which would encompass your concerns for a shipyard program as well as a ship-operating program.

Mr. PICKETT. Yes, ma'am.

Ms. PHELLEPS. Mr. Pickett, in response to your question and also in general response to some of Mr. Bateman's questions, we would be happy to take a look at some options and once we have had a chance to discuss them and get back to both of your offices and to the Committee regarding this.

I just want to point out that we are not opposed to a U.S.-flag fleet. I think we need to be very careful about how we fund this. We are looking at sort of the robbing-Peter-to-pay-Paul kind of concept here.

The world is becoming much more competitive and everything that we do here at home to look at exports to pay for additional costs here at home only continue to further disadvantage exports whether they be coal, grain, semi-computers, whatever they happen to be.

The state of Virginia just finished a study looking at coal exports and if you would like a copy of it, I would be happy to furnish it to you. Their recent study showed that the economic impact on the state of Virginia in 1992 and coal exports, both coal produced in the state and coal that moves through the state to Hampton Roads, was $2.4 billion in 1992, $800 million in wages and 23,000 jobs.

I think that—and that is just one industry. We need to look at the overall picture, be very careful that what we do here does not significantly disadvantage our trade in order to help our U.S.-flag fleet.

Mr. PICKETT. Anyone else? Thank you, Mr. Chairman.

Mr. BATEMAN. Mr. Chairman, if I could just comment. Ms. Phelleps, we received that report on that study from the Commonwealth of Virginia yesterday, I am told. Thank you very much.

Mr. LIPINSKI. You do not have any new questions for this round, Mr. Pickett?

Mr. PICKETT. No.

Mr. LIPINSKI. The Chair once again recognizes Ms. Bentley.

Ms. BENTLEY. Thank you, Mr. Chairman. Ms. Phelleps, supposing we just put the tax on imports.

Ms. PHELLEPS. That is great. I would like to point out that it is rather ironic in the case of coal at least. The majority of our coal imports right now are coming from Colombia and Venezuela. They pay the lower rate so coal that is being shipped out of the U.S., 88 percent of that is paying the higher rate. If you want to tax coal imports, that is fine.

Ms. BENTLEY. I am for taxing all imports. Yes, Peter.

Mr. FINNERTY. Ms. Bentley, a colleague has provided Terry and I with some information that responds to your earlier question about cargo diversion and apparently the Maritime Administration study focused on the movement of cargo since 1990 when the tonnage fee was increased.

They say that the critical factor involved is the location of the port that you are looking at, which is to say, for instance, ports in the Northeast or in the Northwest. Since 1990, 3–4 million tons of cargo have been diverted to Canada and over 2 million tons of cargo have moved to the United States. That is, to say diverted across the border in the opposite direction.

Therefore, the study shows that it is almost a wash, almost even, and that overall when you look at cargo flow since 1990 there has been an increase in trade, and it was not impacted by the tonnage fee increase.

Ms. BENTLEY. I would like to get all those figures from the study, etc., for the record so we can look into those very carefully. Mr. Stocker, when can we expect your suggestion or your proposal on the financing?

Mr. STOCKER. Well, I expect to have those to you and the Committee staff within the next few days.

Ms. BENTLEY. I think it is very important because we have been working on this a substantial length of time now and it is important that we get whatever input you have ASAP so we can move on with it and see what we can do to help everybody.

Again, Mr. Chairman, I want to compliment you for moving ahead on this as rapidly as you have and let us just keep going, pushing. Thank you.

Mr. LIPINSKI. Thank you very much. Well, by recognizing all the Members of the Committee before I ask any questions myself, I have almost succeeded in exhausting all the questions I had to ask.

One question I had to ask though with Moya, you list over here all these ports that coal moved through in West Virginia, Virginia, Kentucky to get into Hampton Roads, Baltimore, Los Angeles. You stated Great Lakes over here. What ports in the Great Lakes does coal move through?

Ms. PHELLEPS. Sandusky, Ashtabula, Erie. I do not have a complete list but I will be happy to supply it to you but there is approximately 8 million tons of coal that moves through the Great Lakes annually.

Mr. LIPINSKI. Thank you. Well, I have two questions over here, one for Peter and one for Terry but in reality I have asked them these questions before. They are also questions that they can hit out of the ballpark for a home run so in light of the fact that we have been at this for an hour and 40 minutes already, I do not think it is necessary to ask those type of questions at this stage of the game.

First of all, I want to say I appreciate everyone's testimony here this morning and I appreciate the Members of the Subcommittee who asked questions. We are going to move along on this very, very rapidly.

I strongly recommend to everyone, the Members of the Committee and the witnesses here today and anyone else that is here in the hearing room if they want to have any input into this process, they better move and move with dispatch because we are going to move very, very quickly.

There are going to be things placed in this legislation that are not in the legislation at the present time. I am not going to go into detail on that but even though I do not have any shipyards near my district or near my state, I am a very, very strong advocate of creating jobs in this nation and shipyards create an awful lot of jobs so we are going to have a component, I hope a very strong component, to aid and assist shipyards.

But I say to all of you if you want to be involved in the process, start moving now because it will not be long before we will be here marking up this piece of legislation and moving it on to the Full Committee. And most of you know that once the ball starts rolling out of the Subcommittee, it is much more difficult to have impact with your input.

Thank you all for being here this morning. This hearing is adjourned.

[Whereupon, at 11:40 a.m., the Subcommittee was adjourned; and the following was submitted for the record:]

ONE HUNDRED THIRD CONGRESS

GERRY E STUDDS MASSACHUSETTS, CHAIRMAN

WILLIAM J HUGHES NEW JERSEY
EARL HUTTO FLORIDA
W J (BILLY) TAUZIN LOUISIANA
WILLIAM O LIPINSKI ILLINOIS
SOLOMON P ORTIZ TEXAS
THOMAS J MANTON NEW YORK
OWEN B PICKETT VIRGINIA
GEORGE J HOCHBRUECKNER NEW YORK
FRANK PALLONE JR NEW JERSEY
GREG LAUGHLIN TEXAS
JOLENE UNSOELD WASHINGTON
GENE TAYLOR MISSISSIPPI
JACK REED RHODE ISLAND
H MARTIN LANCASTER NORTH CAROLINA
THOMAS H ANDREWS MAINE
ELIZABETH FURSE OREGON
LYNN SCHENK CALIFORNIA
GENE GREEN TEXAS
ALCEE L HASTINGS FLORIDA
DAN HAMBURG CALIFORNIA
BLANCHE M LAMBERT ARKANSAS
ANNA G ESHOO CALIFORNIA
THOMAS J BARLOW III KENTUCKY
BART STUPAK MICHIGAN
BENNIE G THOMPSON MISSISSIPPI
MARIA CANTWELL WASHINGTON
PETER DEUTSCH FLORIDA
GARY L ACKERMAN NEW YORK

JACK FIELDS TEXAS
DON YOUNG ALASKA
HERBERT H BATEMAN VIRGINIA
JIM SAXTON NEW JERSEY
HOWARD COBLE NORTH CAROLINA
CURT WELDON PENNSYLVANIA
JAMES M INHOFE OKLAHOMA
ARTHUR RAVENEL JR SOUTH CAROLINA
WAYNE T GILCHREST MARYLAND
RANDY DUKE CUNNINGHAM CALIFORNIA
JACK KINGSTON GEORGIA
TILLIE K FOWLER FLORIDA
MICHAEL N CASTLE DELAWARE
PETER T KING NEW YORK
LINCOLN DIAZ BALART FLORIDA
RICHARD W POMBO CALIFORNIA
HELEN DELICH BENTLEY MARYLAND
CHARLES H TAYLOR NORTH CAROLINA
PETER G TORKILDSEN MASSACHUSETTS

CHIEF OF STAFF
JEFFREY R PIKE

CHIEF COUNSEL
THOMAS R KITSOS

MINORITY STAFF DIRECTOR
HARRY F BURROUGHS

MINORITY CHIEF COUNSEL
CYNTHIA M WILKINSON

U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, DC 20515-6230

April 27, 1994

TO: MEMBERS, SUBCOMMITTEE ON MERCHANT MARINE

FROM: WILLIAM O. LIPINSKI, CHAIRMAN

RE: FUNDING ALTERNATIVES FOR MARITIME REFORM

At 10:00 a.m. on Thursday, April 28, 1994, in 1334 Longworth House Office Building, the Subcommittee on Merchant Marine will hold a hearing on funding alternatives for maritime reform.

The Subcommittee has invited representatives from the following private organizations to present testimony: Seafarers International Union, Sea-Land Service, Inc., National Industrial Transportation League, Liberty Maritime Corp., Shipbuilders Council of America, and the National Coal Association.

BACKGROUND INFORMATION ON TONNAGE FEES

On March 10, 1994, Chairman Gerry E. Studds, Ranking Minority Member Jack Fields, Merchant Marine Subcommittee Chairman William Lipinski, and Fisheries Management Subcommittee Chairman Thomas Manton introduced H.R. 4003, the Maritime Security and Trade Act of 1994, at the request of the Clinton Administration. H.R. 4003 contains the Administration's maritime operating reform program as well as a proposal to pay for the program by increasing the tonnage fees.

The U.S. vessel tonnage duty on commercial vessels entering U.S. ports was first enacted in 1790. The rate is based on the net registered tonnage (NRT) of the ship, as well as the last foreign port the vessel called before entering the United States.

THIS STATIONERY PRINTED ON PAPER MADE OF RECYCLED FIBERS

On January 1, 1991, the fee on the first five entries a vessel makes into the United States from another port in the Western Hemisphere was increased from $0.02 per NRT to $0.09 per NRT, and the fee on the first five entries from other foreign areas was increased from $0.06 to $0.27 per NRT.

To fund the Maritime Security Program, the Administration has proposed an increase in tonnage fees to $0.24 and $0.71 respectively. The fee will continue to be collected for a vessel's first five entries into a U.S. port.

- For a typical container ship, the cost would increase from $.90 to about $2.37 per container (a $1.47 increase).

- For a dry-bulk carrier, the cost would increase from $0.08 to about $0.22 per ton of cargo (a $0.14 increase).

- For a tanker, the cost would increase from $0.007 to about $0.018 per barrel (a $0.011 increase).

- For a passenger ship, the cost would increase from $0.23 to about $0.61 per passenger (a $0.38 increase).

The Administration estimates these increases will raise $100 million a year and $1 billion over the 10 year program.

BACKGROUND INFORMATION ON H.R. 2380, THE MARITIME TRUST FUND ACT

Merchant Marine Subcommittee Chairman Lipinski introduced H.R. 2380, the Maritime Trust Fund Act on June 10, 1993. Cosponsors include Ms. Furse and Messrs. Taylor, Barlow, Stupak, Hinchey, and Owens. The bill was referred jointly to the Committee on Merchant Marine and Fisheries and the Committee on Ways and Means. On October 23, 1993, the Subcommittee on Merchant Marine held a hearing on the bill.

H.R. 2380 would impose a five percent voyage tax on all cruises that have a foreign port of call and a $15 container tax that the Subcommittee intends to delete at markup. Approximately four million passengers take cruises each year on foreign cruise vessels that do not pay United States corporate income tax. The majority of these vessels are not U.S.-flag, U.S.-crewed or U.S.-built. If the tax is increased to five percent of the ticket price, it will raise over $1.7 billion in 10 years.

The revenue the Maritime Trust Fund Act collects would be set aside in a trust fund for H.R. 2151, the Maritime Security and Competitiveness Act of 1993 which includes operating and shipbuilding assistance.

OTHER FUNDING OPTIONS EXAMINED AND BY CONGRESS AND THE ADMINISTRATION

(1) Increase the Oil Spill Tax by 2.5 cents per barrel to 7.5 cents per barrel. This tax would raise about $115 million per year.

(2) Increase the Ready Reserve Fleet budget in the Department of Defense budget by $200 million a year for 10 years.

(3) Reduce the Ready Reserve Fleet by 28 vessels by selling them on the open market and using the money saved on operation and maintenance to add 40 ships to the proposed 52 ship fleet.

Contacts:

Majority Counsel: Fred Zeytoonjian, 202-226-3533

Minority Counsel: Rusty Johnston, 202-226-3492

Joint Statement

of

AMERICAN PRESIDENT COMPANIES
CENTRAL GULF LINES
CROWLEY MARITIME CORPORATION
CSX CORPORATION/SEA-LAND SERVICE
FARRELL LINES
MATSON NAVIGATION COMPANY
TOTEM RESOURCES
WATERMAN STEAMSHIP COMPANY

on the

NEED FOR A FUNDED REVITALIZATION PROGRAM FOR THE UNITED STATES-FLAG LINER FLEET THIS YEAR

before the

SUBCOMMITTEE ON MERCHANT MARINE
COMMITTEE ON MERCHANT MARINE & FISHERIES
UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

April 28, 1994

JOINT STATEMENT OF
AMERICAN PRESIDENT COMPANIES, CENTRAL GULF LINES,
CROWLEY MARITIME CORPORATION, CSX CORPORATION/SEA-LAND
SERVICE, FARRELL LINES, MATSON NAVIGATION COMPANY,
TOTEM RESOURCES, AND WATERMAN STEAMSHIP COMPANY

Mr. Chairman and Members of the Subcommittee:

We are pleased to appear before the Subcommittee today to urge immediate enactment of a funded revitalization program for the United States-flag liner fleet.

It has been almost a year since U.S.-flag carriers last appeared before the Subcommittee to urge enactment of legislation to revitalize the U.S.-Flag Merchant Marine. During that year, much has been done towards realization of that goal. Congress, responding to the leadership of this Subcommittee and the Full Committee, moved further towards adopting a revitalization program for the United States-flag liner fleet than at any time in the past two decades. We commend you for your leadership.

Progress Towards Meaningful Reform

A core question remains whether the Government will support a United States-flag fleet of sufficient size to meet its shipping needs for economic security and national defense.

Two weeks before our last appearance, the Administration had decided that it would neither propose legislation nor budget authority to support revitalization of our nation's merchant marine. As we said then, effective reform of the maritime industry simply is not possible in the short term without some form of funded public investment.

In short, not long before our appearance on May 25, 1993, maritime reform in the United States seemed dead. Virtually all that remained was to determine how long it would take to complete the orderly liquidation of our industry.

Then on May 19, 1993, less than a week before our testimony, this Committee responded by proposing legislation to authorize the needed revitalization programs. On that date, Chairman Studds of the Full Committee, Chairman Lipinski, Representatives Fields, Bateman and many of the Members of this Subcommittee introduced H.R. 2151, the "Maritime Security and Competitiveness Act of 1993". Ladies and Gentlemen, we are firmly convinced that had you not risen to the challenge, nothing that has occurred in the past year towards achieving meaningful reform in the maritime industry in the United States would have occurred.

H.R. 2151 and the accompanying maritime tax reform package served as the catalyst for everything that has followed. This Subcommittee and its leadership had the foresight and determination necessary to stand up and say that it was important to our national interest that the United States ensure the continued existence of an operating fleet of United States-documented vessels that is sufficient to carry this Country's domestic water-borne commerce and a significant portion of its water-borne liner export and import commerce and to provide shipping service essential for maintaining the flow of such commerce at all times.

As H.R. 2151 proceeded through hearings in this Subcommittee last Summer and as it was approved by the Full Committee on August 5th, things began to change. The further the bill moved forward, the more it served notice that the Congress would not sit idly by and watch the dissolution of a vital national resource. The press started to again

feature articles stressing the importance of our industry to the Country. And, equally important, those who would "deregulate" the industry by destroying it were dealt a blow when the National Performance Review instead recommended that a commission be establish to review the problems facing the industry.

But more was to come. On November 4, 1993, the leadership and members of this Committee were instrumental in achieving House passage of the most significant piece of maritime reform legislation since 1970. Nor was this a narrow victory. By passing H.R. 2151 by the overwhelming margin of 347 to 65, and decisively defeating an attempt to amend its cargo preference provisions, the House sent a message that was heard throughout the country. The survival of the maritime industry in the United States was important to the House and its Members and anyone seeking to challenge that proposition faced a daunting task.

This Committee's leadership in ensuring the passage of H.R. 2151 in early November also had important consequences elsewhere in the government. Most important, the need for a funded program for revitalization of the United States-flag liner fleet became an issue for the fiscal year 1995 budget. At the very time that the Administration was focused on developing the budget, the House spoke with an unmistakable voice on the need to preserve a U.S.-flag merchant fleet.

As a result, Secretary Peña gained two invaluable allies for his efforts to obtain funding for a maritime revitalization program in the 1995 budget: the Congress and the President of the United States. Not unsurprisingly, this time the results of the Administration's review of the need for such a program were very different. In May, the decision had been to not propose a program or budget authority; eight months later, in

January, a positive decision was reached. The key difference was House passage of H.R. 2151 in November -- and that House victory would not have been achieved were it not for this Committee's initiative in May.

Thus, on February 7, 1994, the White House released its proposed Fiscal Year 1995 Budget, which included funding for a $1 billion, ten-year maritime revitalization program. A month later, on March 10, 1994, Secretary Peña forwarded to the House proposed implementing legislation for the Administration's program. That bill, H.R. 4003, the Maritime Security and Trade Act of 1994, is before the Committee today.

It was this Committee's leadership and initiative that led to the Administration changing its previous answer to the core question underlying maritime reform: is it in the interest of the United States that it maintain a U.S.-flag merchant marine? The Administration's proposal confirms that the answer is assuredly "yes"!

The Benefits of a U.S.-Flag Liner Fleet

Underlying the urgent need for a funded program to revitalize the United States-flag liner fleet is the undisputed fact that such a fleet benefits both our economy and our national defense. As President Clinton stated as H.R. 4003 was being forwarded to Congress, and I quote:

> This legislation represents an important step forward in assuring America's future as a maritime nation. A modern merchant United States-flag fleet, with skilled U.S. mariners, will provide not only jobs and economic benefits, but also an important sea-lift capability in times of national emergency.

President Clinton has clearly grasped the situation.

On the defense side, the advantages of maintaining a U.S.-flag merchant marine are abundantly clear. The remarkable logistics feat of Operations Desert Shield and Desert Storm demonstrated yet again that the Pentagon needs a U.S. merchant fleet upon which it can rely in times of national emergency.

Although the Persian Gulf conflict was a situation in which the United States enjoyed broad international support, 81 percent of the dry cargo moved to the region moved on U.S.-flag vessels. U.S.-flag liner carriers transported approximately 30 percent of all dry cargo to the Gulf -- almost 80,000 TEU's plus significant non-containerized cargo moved on break bulk, roll-on/roll-off and LASH barge vessels. They demonstrated to the world how military supplies could be moved effectively and cost-efficiently by commercial vessels operating in large part on commercial service routes. In response to the Defense Department's request, the companies provided more than just ships -- they provided a complete, world-wide intermodal shipping system, including experienced management teams, state-of-the-art port facilities, logistics and information systems and services, containers and equipment.

For the taxpayer this is immeasurably less expensive than having the government acquire and maintain in standby similar assets of its own -- not even factoring in the problems and cost of finding crews and administering U.S. Government owned and operated vessels and related systems.

Moreover, only the existence of an active commercial fleet ensured a sufficient seafarer pool to crew vessels drawn from the governments' ready reserve and reduced operating status fleets during the Gulf conflict.

As a result, we continue to believe that a promotional program does far more than compensate carriers for higher operating costs. Programs such as that contained in H.R. 2151 and H.R. 4003 represent a payment by the Government for a real service -- ensuring the availability of vessels, crews, and worldwide transportation systems for defense use in times of emergency at far less cost to the Government than maintaining such a capability under government ownership.

The economic benefits of the U.S.-flag liner fleet are equally clear. U.S.-flag vessels ensure that America's peacetime commerce never becomes fully captive to foreign shipping. The presence of U.S.-flag vessels on our major trade routes helps ensure that the delivered price of American exports and imports is not determined unilaterally by foreign carriers, which in many instances are affiliated with foreign producers or their national governments.

Finally, we can never neglect the important benefits to this country that accrue through the use of United States-flag vessels in terms of the employment of thousands of Americans at sea and in company headquarters. In addition, purchasing ocean transportation services from U.S. operators contributes to a favorable U.S. trade balance.

The Need for Reform and Increased Cost Competitiveness

We also need to look at maritime reform from a broader perspective. As essential as the liner revitalization program proposed by H.R. 2151 and H.R. 4003 is to the overall climate of reform in the sea-going side of the maritime industry in the United States, it is but one part of the larger challenge. When carriers decide whether and to what extent they will sail their ships under U.S. flag, they need to look at the total competitive

environment including regulatory, tax, and other cost considerations. To achieve the extent of reform needed to ensure the continued existence of a strong and competitive U.S.-Flag Merchant Marine, all of the following will be required:

- Vessel standards reform -- U.S. vessels cannot be burdened with a different set of vessel design, equipment, or operating rules than the foreign vessels calling at U.S. ports. It is important to understand that this is not a safety issue. Foreign vessels now carry 96 percent of the oceanborne trade through U.S. ports. It is ridiculous to argue that roughly 4 ships out of every 100 calling at U.S. ports should be forced to operate under more costly rules and regulations than the other 96. For those 4 U.S.-flag ships to compete effectively, there should be only international standards, a worldwide set of rules with which the ships of all nations must comply, including U.S.-flag ships.

- Tax reform -- U.S. maritime companies still operate under more burdensome national tax policies than their foreign competitors.

- Increased cost-competitiveness. The U.S. maritime industry has long been a world leader in the development of technologies designed to improve the cost effectiveness of intermodal transportation. Indeed, our technology and integrated intermodal systems are what allow us to compete with vessels that have substantial capital, tax, regulatory, and operating cost advantages over U.S. vessels. However, the operating side of the industry must be allowed to realize the

economic benefits of that technology. Thus, the companies and maritime labor must continue to pursue greater cost efficiencies in vessel operations.

The Urgent Need to Enact A Program -- With Funding

This brings us to a critically important point -- that Congress must act this year to pass a new program, including funding. Despite the great progress made in the past year, the unescapable fact remains that when we appeared before you on May 25, 1993, 501 days remained before the October 8, 1994, targeted adjournment date for this Congress. Today, that number is 163. Of course, there are even fewer legislative days available.

We have at this time, with Presidential support, a unique opportunity to pass legislation. That opportunity must not be lost. Failure to enact a new support program would be widely perceived as signalling the end of the effort to achieve meaningful reform of U.S. maritime policy. It is our view that if a new promotional program with funding is not passed, present operators will not survive economically while operating under U.S. flag.

As to the means of funding a new program, the Administration has recommended an increase in vessel tonnage fees. In the current economic environment, no one readily proposes cost increases for any sector of the national economy. The Administration clearly had to balance tight budget constraints against the obvious national interest in revitalizing the United States-flag liner fleet. After careful deliberation, the Administration chose an increase in tonnage fees as a means of funding a maritime program which would be consistent with budget act requirements. We commend the Administration for

having made a difficult choice and for proposing a funding source to Congress in its legislation. We support the Administration's decision. Let us also add that we believe it would be reasonable for the Department of Defense to support at least a portion of a new maritime program. But the Administration cannot pass laws. Thus, it is critical that Congress now enact funding legislation. The House properly recognized the importance of a new maritime program by passing H.R. 2151 by an overwhelming margin last November. Yet, without a source of funds, there will be no program, with dire consequences for the United States-flag liner fleet.

Conclusion

In closing, Mr. Chairman, we continue to seek enactment of a new, funded, maritime program. This is necessary if we are to retain a United States-flag liner fleet in foreign commerce. We remain anxious to assist the Subcommittee and Congress in achieving this result.

Last year, this Subcommittee, under your leadership, Mr. Chairman, and that of Representative Bateman, coupled with the efforts of Chairman Studds, Representative Fields, and many others, produced and passed a bill that presents a framework for a good new maritime program. The Administration's submission of a bill also represents a major, positive step towards enactment, with its commitment to a funding source being one of its strongest points. From this, we are hopeful that a good final bill, with funding, will be enacted very soon.

That concludes our statement. We thank you, Mr. Chairman, and the Subcommittee for this opportunity to appear before you today to once again emphasize the critical importance of enacting legislation to revitalize the United State-flag liner fleet.

THE
NATIONAL
INDUSTRIAL
TRANSPORTATION
LEAGUE

TESTIMONY

OF

THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

BEFORE

SUBCOMMITTEE ON MERCHANT MARINE

COMMITTEE ON MERCHANT MARINE AND FISHERIES

U. S. HOUSE OF REPRESENTATIVES

ON

FUNDING PROPOSALS FOR MARITIME REFORM

APRIL 28, 1994

1700 North Moore Street, Suite 1900 • Arlington, Virginia 22209-1904 • (703) 524-5011 • (703) 524-5017 (fax)

Chairman
Roger W. Wigen
Manager of Transportation
Policy and Industry Affairs
3M

First Vice Chairman
John L. Amos
Manager of Traffic and Logistics
Bechtel Corp

Second Vice Chairman
Gerald De Peppe
Purchasing Support Director
ARCO Oil and Gas Company

Third Vice Chairman
William A. McCurdy, Jr.
Logistics and Commerce Counsel
E. I. du Pont de Nemours & Co

Treasurer
R.W. (Bob) Claiborne
Manager, Transportation and
Travel Services Operations
AT&T

President
Edward M. Emmett

Introduction

Hello, my name is Richard V. Collins, director of distribution, Perrier Group of America. I am pleased today to represent the views of The National Industrial Transportation League. League members include many of the largest industrial and commercial concerns in the United States, as well as numerous smaller shippers. The League also represents groups and associations of shippers in national and international transportation. Our members are substantial users of all modes of transportation, including U.S. and foreign-flag ocean common carriers. League members export and import substantial quantities of products from points all over the world, and are, therefore, greatly affected by maritime policy. Stated simply, League members are the customers of the ocean transportation system.

Overview

The League welcomes the opportunity to comment on funding proposals for maritime reform. Particular attention is paid to the Administration's proposal, *A Bill to Authorize Appropriations for Fiscal Year 1995 For Certain Maritime Programs for the Department of Transportation, to Amend the Merchant Marine Act, 1936, As Amended, To Revitalize the United States Flag Merchant Marine, and For Other Purposes.* We specifically wish to focus our views on Title II of this measure which is entitled the "Maritime Security and Trade Act of 1994." Title II is also known as the "Maritime Security Program" since it proposes a new assistance program to provide government subsidies for the operation of 52 U.S. flag ships through the year 2004. Total expenditures would run $1 billion over the 10 year program. Funding for this subsidy would be derived from raising the current commercial vessel tonnage tax by approximately 150 percent.

Need To Reform the U.S. Maritime Industry

Senate Commerce Committee Chairman Hollings in the March 17 *Congressional Record* cited one of the justifications for introducing this legislation is that, "maritime reform is vital to the continued existence of the U.S. merchant marine, which is so critical to our national interest." Unfortunately the Administration's bill merely perpetuates failed policies of the past which have been predicated on government handouts.

Maritime reform" must address wholesale changes which are necessary for the industry's long-term survival. These reforms must include: (1) limits on the amount of ocean cargo capacity allowed to be aggregated into ocean pricing cartels also known as ocean conferences; (2) a prohibition on conferences interfering with contract negotiations between an individual ocean carrier and the U.S. importer or exporter; and (3) an end to the Federal Maritime Commission's contract filing requirements, so that terms and provisions of ocean contracts will remain confidential, just as they are everywhere else in the world as they are in most U.S. business.

The League strongly favors a minimum of economic regulation in the maritime industry, primary reliance on the forces of competition to encourage responsive and innovative pricing and service practices, and the use of contracts to provide rate and service stability to increase shipper and carrier productivity. The United States must have a modern and efficient ocean transportation system if U.S. businesses are to have the opportunity to compete in the world marketplace. A truly efficient ocean transportation system must be one in which shippers and carriers are afforded the legal right to negotiate price and service levels on a fair and equitable basis without third party interference. (This interference includes those obstacles that are manifested from byzantine regulations and the business as usual rules of ocean conferences.) This environment will not only enhance the ability of U.S. industry to meet customer needs, but it will result in increased economic vitality to the carriers serving the U.S. trades.

U.S. companies today are generally not allowed to negotiate transportation contracts with individual ocean carriers. Although the 1984 Act permits contracting, in practice there is no true negotiation between the parties. They are forced under most circumstances to deal with an organized conference of carriers which are exempt from anti-trust laws which, in many instances, does not understand the importer's or exporter's particular needs. In most circumstances, a conference will merely publish discounts in a table format and then tell the shipper to take it or leave it. We do not view this as contracting in the normal sense where parties may sit down and work out terms that are acceptable to each side. These practices are in direct contrast to foreign companies that can and do enter into such arrangements. Thus, foreign companies have a competitive advantage in entering foreign markets, leaving U.S. companies at a distinct disadvantage.

Opponents to these reforms have stated that change would cripple the ability of U.S. flag carriers to survive. This is the same argument that was made by various sectors of the domestic freight transportation industry regarding deregulation of the motor carrier and railroad industries in the late 1970s. For example, the railroad industry prior to 1980 as the U.S. maritime industry is today was in the midst of a great economic depression. The passage of the Staggers Rail Act brought about many of the reforms that we today advocate for the U.S. ocean transportation industry. Today, rail shippers and carriers function as true business partners, and the rail freight industry enjoys near-record prosperity. For a complete understanding of the reforms we have outlined, we suggest the committee refer to the attached recommendations provided by League Chairman Roger W. Wigen to the Advisory Commission on Conferences in Ocean Shipping.

Without inclusion of these economic reforms, we believe the Administration's bill is doomed to repeat the mistakes of the past quarter century. U.S. carriers may manage to survive on this government welfare program, but is this the best fate we can expect from a fleet that represents this country around the world?

National Defense Needs?

The Administration's measure is dependent on a $1 billion program to be financed by increasing the current tax on commercial vessels entering U.S. ports by approximately 150 percent. Since one of the stated purposes for this legislation (as evidenced in part by the program's title) is to have a U.S. flag liner fleet available for national defense needs, it seems reasonable that the Department of Defense would be interested in providing financial support for this program. However, it is our understanding that the DOD has little or no interest in keeping U.S. flag liner vessel ships operational since the types of ships earmarked for this legislation would be of little or no use to them in times of a national crisis. If the DOD refuses to support U.S. liner shipping, then we wish to challenge the proponents claims for meeting national security requirements.

It is unfortunate that promoters of the bill are unable to devise more inventive arguments because U.S. shippers strongly wish to maintain a U.S. flag presence. It is in the shippers best interest to see that these carriers can viably operate and service their needs. But a U.S. flag fleet must be economically sound and operate efficiently to remain in business for the long term. While government funded support may be required in the interim to maintain the existence of U.S. flag ships, it must never be considered the final solution for the fleet's continued operations.

Maritime Trust Fund Act

In October of last year the League, in a statement before this Subcommittee, stressed it was opposed to H.R. 2380, *The Maritime Trust Fund Act.* This measure would place an excise tax on all commerical container movements for the purpose of generating revenue to subsidize the U.S. flag fleet. Without detailing the concerns already stated above, the complete text of the League's statement is appended to this testimony.

Conclusion

Maritime reform should be based on a national maritime policy which finally recognizes that the U.S. needs an ocean transportation system capable of providing cost efficient and effective service. Such a system will evolve when the constraints of a regulated environment are eliminated and the creation of equal partnerships between shippers and carriers are permitted. It is clear that this legislative proposal is myopic in its approach and does nothing for improving the health of the U.S. maritime industry. We stress to the Committee that there is no reason to continue pouring money into policies which are proven failures. In the early seventies when the current expiring contracts were signed, it was well known to the liner operators under subsidy that this was their final drink at the trough. While we actually support continued temporary assistance for U.S. flag liner operators, it must be linked to the economic reforms we outlined above.

The League and the overwhelming majority of all U.S. shippers believe that fundamental change is required to revitalize the U.S. maritime industry and for the first time permit U.S. carriers serving this country's world trade to be more responsive to customers needs. The League takes strong exception to the comments by some maritime interests that contract confidentiality, limitations on antitrust immunity for collective rate action, and elimination of the filed rate doctrine would destroy the U.S. flag ocean transportation system. To the contrary, such changes would strengthen ocean carriers' ability to competitively price their services. U.S. shippers, in turn, could be more competitive in global markets as carriers are free to respond to customers' competitive needs.

Finally and most importantly the economic reforms we propose will not cost one penny of taxpayers money.

We welcome the opportunity to work with the committee and the staff in fashioning a legislative package which truly embodies maritime reform.

I will be glad to respond to any questions you may have. Thank you.

Appendix 7

Synopsis of Recommendations Submitted by Roger W. Wigen, Commissioner, Advisory Commission on Conferences in Ocean Shipping

1. Establish Incentives that Eliminate the Adversarial Positions and Encourage Partnerships Between U.S. Shippers and U.S. Flag Carriers

We have witnessed generally throughout the Advisory Commission process an adversarial relationship between carriers and shippers. This must be refocused to a consistent advocacy by U.S. flag carriers and U.S. shippers in the spirit of enhancing U.S. trade and U.S. jobs.

U.S. shippers (manufacturers, retailers, and farmers) and U.S. flag carriers are U.S. taxpayers as are their workers. It is in the best interest of all U.S. taxpayers for U.S. Commerce to flourish and for U.S. flag carriers and U.S. shippers to increase their market share. With some exceptions, both carriers and shippers have suffered from declining market share.

Tax incentives and other inducements have been proposed, but if partnerships can benefit shippers, carriers and commerce as in domestic transportation we must also foster one-on-one relationships without interference from conferences between U.S. shippers and U.S. flag carriers in international ocean transportation.

2. Eliminate the Economic Regulation of the Maritime Industry

Economic regulation of ocean liner transportation simply adds another layer of cost to U.S. businesses that makes them less competitive in the world marketplace. All other transportation modes, both in domestic and international commerce are free from economic regulation.

Only in ocean liner shipping does a federal agency exist whose major purpose is to police commercial rates, to assure that there is no deviation from those rates, and to maintain, at taxpayer expense, an inventory of those rates and a government staff to police the market. Such policing has proven to be fairly ineffective.

3. Separate Common and Contract Carriage

This is not as revolutionary as some carrier members of the Advisory Commission contend. In fact, the Shipping Act of 1984 statutorily recognized and authorized the departure of ocean liner transportation from the normal common carriage system with time-volume rates and service contracts.

The combination of spot market (common carriage) and commitment over-time (contract carriage) simply reflects standard business practices in all other transportation modes and in all modern business transactions.

Congress needs to more formally recognize the present dichotomy in ocean liner shipping by allowing a mechanism by which ocean carriers publish their rates and schedules for the public but are free to establish different rates and services as part of a bonafide contractual commitment.

4. Allow Confidential Contracts and Independent Action Thereon Between Individual Carriers and Shippers

Confidentiality protects both parties to a business contract by not disclosing terms of the agreement to competitors of either party. It allows customized commitments and enhancements not otherwise attainable.

An excellent example of these benefits can be found in the development of the U.S. intermodal transportation network that prior to 1980 was underdeveloped.

While U.S. intermodalism is still not fully developed, deregulation and the elimination of contract filing has allowed sophisticated partnerships between ocean, rail and/or truck carriers, and between providers of transportation services and users of transportation services. The net result has been increased efficiency/productivity for carriers, predictability of cost for shippers and more value-added services.

Individual ocean carriers and shippers deserve the same opportunity to establish meaningful partnerships on a non-disclosure basis and to independently establish customized business arrangements without conference interference.

5. Eliminate Tariff and Contract Filing and Enforcement

Most of our major trading partners do not require tariff and contract filing and do not enforce tariff rates. The net result is that U.S. companies seeking to export must disclose their transportation cost to foreign competitors while foreign entities of the same products benefit from non-disclosure of their costs.

Tariff and contract filing/enforcement is an expensive endeavor without any significant benefits or as Vice Chairman Shane of ACCOS states, "Very expensive anachronism 'without' sufficient justification."

6. Eliminate Anti-Competitive Practices of Superconferences and Conference/Independent Discussion or Talking Agreements

The central compromise of the 1984 Act was to allow continued antitrust immunity for conferences while limiting the power of these conferences with the mandatory right of independent action. However, this compromise has been undermined as conferences have grown well beyond the scope envisioned in 1984. In some trade lanes the conference includes virtually all ocean carriers. In other trade lanes conference carrier/independent carrier discussions to set rates and/or reduce capacity further erode the compromise.

The compromise intended to work in 1984, no longer works today. It is essential to at least restore a strong presence of independent carriers that cannot be over-influenced through discussion meetings with conference carriers to fix rates or reduce capacity.

7. Remove Carrier/Conference Antitrust Immunity to the Degree Necessary to Achieve the Above Recommendations

During the Advisory Commission proceedings we have heard overwhelming testimony that the current system is not working and that conferences have created a barrier to individual relationships between carriers and shippers which has been detrimental to the U.S. economy.

A comprehensive analysis of the ocean liner system by Trevor Heaver (Appendix 6) concluded that ocean shipping is not different than other basic industries.

For these reasons, ocean carriers should be subject to U.S. Antitrust Laws or some reasonable alternative that observes the market share guidelines of U.S. Antitrust Laws providing the above recommendations are implemented.

THE
NATIONAL
INDUSTRIAL
TRANSPORTATION
LEAGUE

STATEMENT

ON BEHALF OF

THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

BEFORE

MERCHANT MARINE SUBCOMMITTEE

U.S. HOUSE OF REPRESENTATIVES

ON

H.R. 2380, THE MARITIME TRUST FUND ACT

OCTOBER 20, 1993

1700 North Moore Street, Suite 1900 • Arlington, Virginia 22209-1904 • (703) 524-5011 • (703) 524-5017 (fax)

Chairman
Roger W. Wigen
Manager of Transportation
Policy and Industry Affairs
3M

First Vice Chairman
John L. Amos
Manager of Traffic and Logistics
Bechtel Corp

Second Vice Chairman
Gerald De Peppe
Purchasing Support Director
ARCO Oil and Gas Company

Third Vice Chairman
William A. McCurdy, Jr.
Logistics and Commerce Counsel
E. I. du Pont de Nemours & Co

Treasurer
R.W. (Bob) Claiborne
Manager, Transportation and
Travel Services Operations
AT&T

President
Edward M. Emmett

The League is the oldest and largest broad–based national association of shippers. League members include many of the largest industrial and commercial concerns in the United States, as well as numerous smaller shippers. The League also represents groups and associations of shippers in national and international transportation. In general, our members are substantial users of all modes of transportation, including ocean liner carriers. League members export and import substantial quantities of products from points all over the world, and therefore, would be adversely affected by the implementation of H.R. 2380, "The Maritime Trust Fund Act."

The purpose of our statement today is to provide the Subcommittee with the views of the shipping community relative to H.R. 2380. That bill, as originally introduced, would place a substantial burden on each and every import and export commercial cargo container with an excise tax of $15 for 20 foot containers and $30 for 40 foot containers. The aggregate economic burden on companies engaged in international commerce will be very substantial. The bill is expected to extract new taxes of approximately $250 million annually.

Over the past year and a half, there has been considerable public debate over what can be done to continue the existence of the U.S. flag fleet. U.S. shippers strongly support efforts to maintain a U.S. flag presence, since it is in their best interest to see that these carriers can operate to service their needs. But a U.S. flag fleet must be economically able and operationally efficient to remain in business for the long term. While government support may be required in the interim to maintain the existence of U.S. flag ships, it must never be considered the final solution for the fleet's continued operations. The League strongly believes that a continued U.S. flag fleet depends on fundamental reforms to the 1984 Shipping Act. These changes, if enacted, would allow U.S. flag shipping to compete like any other business without continued government or private source assistance.

Briefly, the reforms we support include a minimum of economic regulation in the maritime industry, primary reliance on the forces of competition to encourage responsive and innovative pricing and service practices, and the use of contracts to provide rate and service stability to increase shipper and carrier productivity. The United States must have a modern and efficient ocean transportation system if

U.S. businesses are to have the opportunity to compete in the world marketplace. A truly efficient ocean transportation system must be one in which shippers and U.S. flag carriers are afforded the legal right to negotiate price and service levels on a fair basis. This environment will not only enhance the ability of U.S. industry to meet customer needs, but it will result in increased economic vitality to the U.S. carriers serving the U.S. trades.

League members are extremely concerned that the new tax proposed in H.R. 2380 will have an adverse effect upon the ability of the U.S. businesses to remain competitive in a global economy. Moreover, the timing of the proposed drain of revenue from businesses engaged in international commerce is particularly harmful. The United States and other countries currently are striving to "jump–start" the major economies of the world, both internally and externally, through their respective domestic policies and through cooperative global trade efforts such as the General Agreement on Tariffs and Trade ("GATT"). A new tax by the United States on international commerce is contrary to, and will hurt, a presently fragile economic recovery.

League members believe that a new tax would negatively impact the worldwide market share of goods supplied by American plants. Reduced market share in turn curtails plant spending, which then adversely affects U.S. wage earners and capital investment here at home. Due to the current economic situation, U.S. companies are working on smaller margins with business advantages marked by very fine lines. New taxes will stunt, not promote, economic growth by imposing additional costs which will contribute to a reduction in whatever competitive advantages that American companies now may have over foreign companies.

The League strongly supports the goal of a healthy U.S. merchant marine. However, direct subsidies are not an appropriate means for achieving this goal. The sound approach is to take action that will ensure that American steamship lines are operated economically and efficiently. Subsidizing one business at the expense of others is not sound fiscal or economic policy. The long–term health of our merchant marine will be best protected if Congress encourages ports, labor. and carriers to emulate how U.S. manufacturers have reacted to market forces by instituting operational efficiencies which have enabled them to be forceful merchants in the world marketplace.

A survey conducted by our International Transportation Committee in July gave us some rather important information on the impact of the proposed tax on U.S. industry. Although the survey naturally showed a rather dramatic increase in shippers annual freight transportation bills, it also indicated that most shippers would now more likely use a foreign flag carrier rather than a more preferable U.S. flag carrier due to limited resources in their transportation budgets. While many shippers said that while they would prefer to use an American flag carrier when possible (due to service, quality, and scheduling preferences) this would no longer be possible since the tax coupled with the U.S. flag carrier's higher cost would now force them to choose foreign flag carriers as the only practical alternative, in view of the finite resources available to them. Mr. Chairman, we submit that not only will this tax place a present and future burden on American industry, it will go further and result in substantial injury to an already crippled U.S. flag fleet.

Congress cannot artificially "prop–up" one industry at the expense of others. A direct tax subsidy will not only make it that much more difficult for U.S. companies vying with foreign industries to compete, but it will also eliminate any incentive for the U.S. fleet to become more efficient and competitive. In the long run, American carriers must become a more cost effective and service oriented industry and they cannot do this with more financial assistance. Now is the time to address the U.S. flag industry's central problem and that is the lack of a national maritime policy. This policy must be predicated on fostering innovation, efficiency and competitiveness rather than continued tax payer and consumer handouts.

Shipbuilders Council of America
Suite 330
4301 N. Fairfax Drive
Arlington, Virginia 22203
Tel 703-276-1700 Fax 703-276-1707

Statement By John J. Stocker, President
Shipbuilders Council of America

On Funding Options for Maritime Reform

Before the Merchant Marine Subcommittee
House of Representatives
Washington, DC

April 28, 1994

Mr. Chairman, Members of the Subcommittee, my name is John J. Stocker. I am President of the Shipbuilders Council of America, the national trade association representing American shipyards, marine equipment suppliers, and naval architects. A membership list is attached to my written testimony.

I appreciate the opportunity to comment on funding options for maritime reform. First of all, let me say that the U.S. shipbuilding industry acknowledges and appreciates the fact that this Subcommittee is mindful not only of the needs of the U.S.-flag operating community, but the needs of U.S. shipyards as well.

Unfortunately, this was not the case in 1981, when the U.S. Government unilaterally terminated the commercial ship construction-differential subsidy (CDS) in the United States, and then implemented special legislation--the so-called "temporary" Section 615 exemptions--to encourage U.S. shipowners to bypass American shipyards and take advantage of rapidly escalating foreign shipbuilding subsidies and ship dumping practices. The combined impact of the unilateral termination of the CDS program, the Section 615 waivers, international ship dumping practices, and massive foreign shipbuilding subsidies devastated

commercial shipbuilding in the United States, forcing the closures of private sector shipyards across the country and the loss by 1990 of over 80,000 shipyard jobs. Surviving American shipyards turned to the U.S. Government as their only source of business; a business base that now is threatened as well.

Mr. Chairman, we do not want history to repeat itself. We know that the Merchant Marine Subcommittee is sensitive to the contribution America's shipyards make to the economic well-being of the country and to the importance of having a domestic shipbuilding base available to meet our country's defense requirements. Our yards cannot stay open without sufficient workload. If they are forced to close, the reverberations will be felt throughout the economy.

We estimate that unless our shipbuilders can successfully compete in the international market, another 180,000 Americans in shipyard and shipyard supplier jobs across the country will be out of work by the end of this decade. Coupled with the job losses sustained in the 1980s, this will mean that more than 300,000 Americans employed in shipbuilding-related work will have lost their jobs. In addition, shipyard closures over the next ten years will place the Navy at risk, due to insufficient production facilities to meet future Navy construction and repair demands in the years beyond 2005.

H.R. 2151 - I want to make it clear that we believe H.R. 2151, the

Maritime Security and Competitiveness Act--passed in the House of Representatives on a vote of 347 to 65 on November 8, 1993--is a better vehicle than H.R. 4003 for instituting maritime reform. Our industry supported H.R. 2151, which was carefully crafted by this Subcommittee to help the U.S.-flag operating community without being detrimental to the U.S. shipbuilding base. Because the members of this Subcommittee understand the impact of foreign shipbuilding subsidies on our industry's ability to compete, it had the foresight to incorporate into H.R. 2151 provisions which deny operating subsidy eligibility for those vessels contracted for in subsidized foreign yards before May 19, 1993; and require a shipowner who wishes to receive operating subsidy on a vessel contracted for in a subsidized foreign yard after May 19, 1993, to give U.S. yards a chance to bid on the vessel first.

STP - This Subcommittee also incorporated a program of Series Transition Payments, or STP, into H.R. 2151. The purpose of the STP program is to assist U.S. yards as they transition from one-of-a-kind production plants to series construction. STP will help close the gap between production costs for a series of vessels built in a U.S. yard versus a foreign yard.

Before 1981, U.S. yards were dedicated to meeting the specifications of the U.S. Navy and of U.S.-flag customers who required small runs of unique ships.

When Americans were shut out of the commercial market, they turned almost exclusively to building naval ships. Our survival as an industry depends on successfully transitioning from military to commercial ship construction. Foreign shipyards, on the other hand, took advantage of government supports to establish standardized production of vessels in series. Their initial start-up design and engineering costs have been amortized over a number of ships and they are now in the position of selling vessels that are far down the production curve. Consequently, U.S. yards need a "catch-up" period.

This is where STP comes in. STP would provide short-term aid to U.S. shipyards as they restructure their operations to convert from building military vessels to building commercial vessels. In essence, STP would apply to Department of Transportation (DOT)-approved series construction projects at U.S. yards transitioning into the commercial market. Payments for a specific project would decrease over time; that is, each payment would decrease with every follow-on ship as production is standardized and run more efficiently.

H.R. 4003 - We were extremely disappointed in two aspects of the Administration's Maritime Security Program (MSP) contained in H.R. 4003. The first aspect is the unlimited build-foreign provision. The Administration's plan would give U.S.-flag ships authority to get operating aid and cargo preference privileges

for ships built in subsidized foreign yards immediately upon passage of the legislation. In essence, U.S.-flag ship operators would be rewarded for ordering from foreign yards heavily subsidized by the very governments whose subsidy policies and practices drove American yards out of the commercial market.

The second negative aspect of the Administration's Maritime Security Program is the absence of the shipyard Series Transition Payment provision contained in H.R. 2151. From the point of view of our shipyards and the 180,000 Americans employed by the shipyards and shipyard supplier companies, the combination of no funding for STP plus immediate build-foreign rights for U.S.-flag operators smacks of 1981 all over again. Only this time, there will not be sufficient military work to sustain a domestic shipbuilding capability.

OECD Talks - As you know, Mr. Chairman, our shipyards have lost nearly five years while trade negotiations within the OECD [Organization for Economic Cooperation and Development] aimed at getting industrialized nations to halt their market-distorting shipbuilding and repair subsidy practices have dragged on without success. The average annual aggregate of the shipbuilding aid budgets in just six of the world's top shipbuilding nations is $9 billion. After more than a decade of being shut out of the commercial market, how can we compete against subsidy levels like that without short-term aid like STP? Meanwhile, just since the

OECD negotiations began, our shipyards have lost 15 percent of their skilled worker base.

Recently, it was disclosed to us that even if an international agreement to limit subsidies were to be reached in the near future, the agreement would not actually go into effect--and the subsidies would not stop--until each participating country goes through a ratification process in their own legislatures. That could take years, particularly in European countries where continuing subsidies are politically popular.

Thus, our industry could face the anomoly of having achieved a trade agreement on shipbuilding subsidies while our trading partners delay implementation of the agreement in order to hang on to their subsidies as long as possible and keep our shipyards out of the commercial market. Without STP, these further delays will devastate our industry. With STP, we will have a chance to gain a toehold in the commercial market until a ratified trade agreement is in force. Of course, at that time, STP would also be terminated.

Funding Mechanism - Because of the concerns I have just articulated, we believe that a funding mechanism for maritime reform should include STP for shipyards as well as operating subsidies for the U.S.-flag fleet. I understand that Transportation Secretary Peña was asked by Senator Hollings at a hearing earlier

this week to do further analysis on whether it is a workable option to increase the tonnage tax on ships calling at U.S. ports to pay for STP as well as the operating subsidies. I also understand that other funding options were considered by the Administration earlier. These other options should be revisited.

Regardless of what funding mechanism or mechanisms are ultimately adopted, we now believe that they must be combined to fund both operating subsidies and STP simultaneously. By this I mean that assigning one funding vehicle for operating subsidies and a separate funding vehicle for STP would not be satisfactory. We have here an historic opportunity for both segments of the maritime community to unite and support each other. By doing so, we lessen the difficulties that each segment would face by going it alone, and strengthen the chances of getting the funding approved by Congress.

Shipbuilders Council of America
Suite 330
4301 N. Fairfax Drive
Arlington, Virginia 22203
Tel: 703-276-1700 Fax. 703-276-1707

March 1994

REGULAR MEMBERS

The American Ship Building Company
Tampa Shipyards, Inc.
6001 South West Shore Blvd.
Tampa, FL 33616

Atlantic Marine, Inc.
8500 Heckscher Drive
Jacksonville, FL 32226

Avondale Industries, Inc.
Post Office Box 50280
New Orleans, LA 70150

Bath Iron Works Corporation
700 Washington Street
Bath, ME 04530

Bay Shipbuilding Company
605 North Third Avenue
Sturgeon Bay, WI 54235

Bender Shipbuilding &
Repair Company, Inc.
Post Office Box 42
265 S. Water Street
Mobile, AL 36601

Bethlehem Steel Corporation
Bethlehem, PA 18016
Port Arthur, TX
Sparrows Point, MD

Bollinger Machine Shop &
Shipyard, Inc.
Post Office Box 250
Lockport, LA 70374

Cascade General, Inc.
Post Office Box 4367
Portland, OR 97208

Continental Maritime of San Diego, Inc.
1995 Bay Front Street
San Diego, CA 92113-2122

Edison Chouest Offshore
North American Shipbuilding, Inc.
East 118th Street
Galliano, LA 70354

General Dynamics Corporation
3190 Fairview Park Drive
Falls Church, VA 22042
Electric Boat Division, Groton, CT
and Quonset Point, RI

General Ship Corporation
400 Border Street
East Boston, MA 02128

Halter Marine, Inc.
13085 Industrial Seaway Road
Gulfport, MS 39505

Ingalls Shipbuilding, Inc.
Post Office Box 149
Pascagoula, MS 39567

Intermarine U.S.A.
Post Office Box 3045
Savannah, GA 31402

The Jonathan Corporation
Post Office Box 1839
Norfolk, VA 23501

Marine Hydraulics International, Inc.
543 East Indian River Road
Norfolk, VA 23523

Marinette Marine Corporation
Ely Street
Marinette, WI 54143

McDermott Cororation
Post Office Box 60035
1010 Common Street
New Orleans, LA 70160

Metro Machine Corporation
Box 1860
Norfolk, VA 23501

National Steel & Shipbuilding Company
Harbor Drive at 28th Street
Post Office Box 85278
San Diego, CA 92138

Newport News Shipbuilding
4101 Washington Avenue
Newport News, VA 23607

Norfolk Shipbuilding &
Drydock Corporation
Post Office Box 2100
Norfolk, VA 23501

Peterson Builders, Inc.
101 Pennsylvania Street
Post Office Box 47
Sturgeon Bay, WI 54235

Southwest Marine, Inc.
Foot of Sampson Street
Post Office Box 13308
San Diego, CA 92113
San Francisco & San Pedro, CA

Textron Marine Systems
6800 Plaza Drive
New Orleans, LA 70127

Todd Shipyards Corporation
1102 SW Massachusetts
Seattle, WA 98134

ALLIED INDUSTRIES MEMBERS

Bird-Johnson Company
110 Norfolk Street
Walpole, MA 02081

Centrico, Inc.
100 Fairway Court
Northvale, NJ 07647

Dresser Pump Division
Dresser Industries, Inc.
401 Worthington Avenue
Harrison, NJ 07029

Fairbanks Morse Engine Division
1730 M Street, NW
Washington, DC 20036

General Electric Company
1331 Pennsylvania Avenue, NW
Washington, DC 20004

Hopeman Brothers, Inc.
Post Office Box 820
Waynesboro, VA 22980

IMO Industries, Inc.
3450 Princeton Pike
Post Office Box 6550
Lawrenceville, NJ 08648

Jamestown Metal Marine Sales, Inc.
4710 Northwest Second Avenue
Boca Raton, FL 33431

Jered Brown Brothers, Inc.
1608 Newcastle Street - Post Office Box 904
Brunswick, GA 31521

Lake Shore, Inc.
Post Office Box 809
Iron Mountain, MI 49801

Reliance Electric Company
24800 Tungsten Road
Cleveland, OH 44117

Sperry Marine, Inc.
Aerospace & Marine Group
Route 29 North
Charlottesville, VA 22907

Teleflex Incorporated
771 First Avenue
King of Prussia, PA 19406

Unisys Government Systems Group
8201 Greensboro Drive
Suite 1000
McLean, VA 22102

Wartsila Diesel, Inc.
201 Defense Highway
Annapolis, MD 21401

Westinghouse Electric Corporation
Hendy Avenue
Sunnyvale, CA 94088

York International Corporation
631 South Richland Avenue
York, PA 17405

AFFILIATE MEMBERS

Bastianelli, Brown & Touhey
2828 Pennsylvania Avenue, NW
Washington, DC 20007

Contralytics Corporation
Two Eaton Street - Suite 704
Hampton, VA 23669

Fort & Schlefer
1401 New York Avenue, NW
Washington, DC 20005

Kvaerner Masa Marine, Inc.
Power Technology Center
201 Defense Highway - Suite 202
Annapolis, MD 21401

Peterson Consulting L.P.
101 Federal Street
25th Floor
Boston, MA 02110

Poten & Partners, Inc.
711 Third Avenue
New York, NY 10017

NAVAL ARCHITECT MEMBERS

Designers & Planners, Inc.
2120 Washington Boulevard
Arlington, VA 22204

John J. McMullen Associates, Inc.
One World Trade Center
New York, NY 10048

Rosenblatt & Son, Inc.
350 Broadway
New York, NY 10013

ASSOCIATION MEMBERS

New York and New Jersey
Dry Dock Association
c/o New York Shipyard
One Beard Street
Brooklyn, NY 11231

South Tidewater Association
of Ship Repairers, Inc.
Post Office Box 2341
Norfolk, VA 23501-2341

TESTIMONY OF

MOYA PHELLEPS

EXECUTIVE DIRECTOR, COAL EXPORTS ASSOCIATION
VICE PRESIDENT-INTERNATIONAL TRADE, NATIONAL COAL ASSOCIATION

BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE
OF THE
HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE
ON
FUNDING PROPOSALS FOR MARITIME REFORM

APRIL 28, 1994

Mr. Chairman and members of the Subcommittee on behalf of the National Coal Association and its affiliate, the Coal Exporters Association (CEA) thank you for the opportunity to testify today on funding proposals for maritime reform.

My name is Moya Phelleps and I am Executive Director of the Coal Exporters Association and Vice President, International Trade for the National Coal Association.

NCA is an organization that represents coal producers, coal exporters, equipment manufacturers, resource developers, coal-burning utilities and transporters of coal. NCA's producer members represent approximately 70 percent of the coal produced in all regions of the United States and NCA members serve all coal markets.

CEA members represent coal producers that export coal as well as coal brokers. These companies represent approximately 80 percent of the coal that is exported from the United States.

In 1993, the United States was the second largest coal exporter worldwide, exporting 74 million short tons of coal to more than 40 countries including Canada. In 1993, U.S. coal exports contributed more than $3.1 billion to the positive side of the U.S. trade balance. In 1992, U.S. coal exports were 102 million short tons valued at

$4.2 billion and; coal was the largest commodity exported in terms of tonnage and the third largest, after wheat and corn, in terms of value.

While coal is not exported from all coal producing states, its economic impact is felt nation-wide. More than 16,200 direct coal mining jobs and an additional 130,000 jobs in U.S. companies support the production and movement of coal to export. Coal exports are critical to the economies of the states of West Virginia, Virginia, Kentucky, Pennsylvania, Alabama, Utah, Alaska, Louisiana, Maryland, and Ohio. Coal exports move through the ports of Hampton Roads, Baltimore, Los Angeles, the Great Lakes, Mobile and New Orleans.

According to a Pennsylvania State University study, commissioned by the National Coal Association, the direct economic impact is $21 billion annually and $81 billion in total activity generated annually in the U.S.

IMPACT ON COAL EXPORTS

The U.S. coal industry understands the importance of a U.S. flag fleet and its role in our country's national security. Our opposition to H.R. 4003 centers upon the vehicle that has been chosen to pay for the Maritime Security Program -- an increase in the vessel tonnage tax.

We are all aware of the history of this tax but, suffice it to say, this tax was increased 450 percent in 1990 as part of the Omnibus Budget Reconciliation Act (OBRA). It was due to revert back to its original rate in 1995 but the higher rate was made permanent in 1993.

Three years after the tax was raised 450 percent, the Administration proposes to increase it another 150 percent. After reviewing the information provided by the Maritime Administration (MARAD), the $0.24 and $0.71 rates represent a 167 percent and 163 percent increase respectively. The 150 percent increase should be $0.225 and $0.675 respectively.

Overall, bulk carriers provided 46 percent of the vessel tonnage tax revenues in 1992. Coal, grain, minerals, wood, paper, fertilizers and iron and steel contributed more than $43 billion to the positive side of our trade balance. All of these exports will be significantly impacted by the increase in tonnage tax. However, I am here today to focus on coal.

What does this mean for U.S. coal exports?

- It means that U.S. coal exporters and their customers are being asked to pay for a U.S. flag fleet that will not have any bulk carriers. And if these vessels were permitted into the program, in all likelihood, they would be too small and too expensive to be competitive in the coal trade.

- It means, in the case of coal, that this is an export tax since vessels arrive from foreign ports empty.

- It means that more than 88 percent of U.S. coal exports will face increased costs of between $0.14-$0.18 per ton. This is in addition to the $0.09 per ton currently paid.

- It means 25 percent of our coal exports to Canada will face an increased cost of $0.07 per ton. This is in addition to the $0.05 per ton currently

paid. Attached to our statement is a table that indicates several recent movements of U.S. coal exports and the additional vessel tonnage costs associated with the movements.

The international coal market is extremely competitive and contracts can be won or lost by small fractions of a dollar. For example, this year's business for Europe and South America has yet to be completed and from all reports it is very possible that contracts may be won or lost by very small amounts. Considering this competitive environment, an additional cost for U.S. coal, or the potential, provide reasons for customers of U.S. coal to look elsewhere for coal supplies.

Since 1991, when the first increase in the tax took effect, U.S coal exports have declined by 46 percent. While the vessel tonnage tax cannot be pinpointed as the reason for our decline, it certainly makes it more difficult for U.S. coal exporters to compete in the international coal market where other countries subsidize their coal industries and actively promote exports.

It is rather ironic for an Administration that has a well-stated policy of promoting exports to tax exports in order to pay for a U.S. flag fleet. According to the Department of Commerce, the trade deficit in 1993 was $132.5 billion. This represents a 38 percent increase from the 1992 deficit of $96 billion.

The Energy Information Administration in its *Annual Energy Outlook 1994* show coal exports increasing to 133 million short tons in the year 2000 and 152 million short tons in 2010. Actions such as a 163 percent increase in the vessel tonnage tax will clearly disadvantage U.S. coal exporters.

The U.S. coal industry urges that alternative sources of funds be examined other than taxing U.S. exports and in particular U.S. coal exports.

IMPACT OF THE PROPOSED VESSEL TONNAGE TAX INCREASE ON U.S. COAL EXPORTS

VESSELS ARRIVING FROM W. HEMISPHERE (CURRENT TAX $0.09 AND PROPOSED TAX $0.24)

VESSEL	CURRENT TAX (Ton of Coal)	PROPOSED TAX (Ton of Coal)	INCREASE (Ton of Coal)
CANADA			
16,398 NRT 32,119 DWT	$0.05/ton	$0.12/ton	$0.07/ton

VESSELS ARRIVING FROM OTHER PORTS (CURRENT TAX $0.27 AND PROPOSED TAX $0.71)

VESSEL	CURRENT TAX (Ton of Coal)	PROPOSED TAX (Ton of Coal)	INCREASE (Ton of Coal)
BRAZIL			
22,277 NRT 74,238 DWT	$0.08/ton	$0.21/ton	$0.13/ton
24,735 NRT 75,000 DWT	$0.09/ton	$0.23/ton	$0.14/ton
EUROPE			
43,071 NRT 104,000 DWT	$0.11/ton	$0.29/ton	$0.18/ton
31,269 NRT 92,499 DWT	$0.09/ton	$0.24/ton	$0.15/ton
JAPAN/KOREA			
49,759 NRT 152,000 DWT	$0.09/ton	$0.23/ton	$0.14/ton

COMPUTATION: $\frac{\text{Net Registered Tonnage (NRT)} \times \text{Tax}}{\text{Deadweight Tons (DWT)}}$

FOREIGN DISTRIBUTION OF U.S. COAL BY ORIGIN STATE, JANUARY-DECEMBER 1992
(Thousand Short tons)

Coal-Producing Region and State	Canada	Overseas[1]	Total
Alabama	—	5,931	5,931
Alaska	—	734	734
Arkansas	—	3	3
Colorado	—	669	669
Illinois	—	1,242	1,242
Indiana	—	177	177
Kentucky	2,078	11,958	14,036
Eastern	2,078	11,737	13,815
Western	—	221	221
Maryland	—	234	234
Montana	—	62	62
New Mexico	—	5	5
Ohio	*	1	2
Oklahoma	—	14	14
Pennsylvania Total	1,599	4,841	6,440
Anthracite	235	89	324
Bituminous	1,364	4,752	6,116
Tennessee	—	2	2
Utah	—	2,260	2,260
Virginia	1,331	15,893	17,224
Washington	—	264	264
West Virginia Total	8,911	41,895	50,806
Northern	2,012	4,541	6,553
Southern	6,899	37,355	44,254
Wyoming	—	1,277	1,277
U.S. Total	13,919	87,461	101,380

[1] Also includes Mexico
*Quantity is less than 500 short tons
Source: Energy Information Administration Form EIA-6, "Coal Distribution Report."

American Association of Port Authorities

1010 Duke Street, Alexandria, VA 22314
Phone: (703) 684-5700
Fax: (703) 684-6321
TWX: 710-832-9823

TESTIMONY OF
JEAN C. GODWIN
VICE PRESIDENT OF GOVERNMENT RELATIONS
AMERICAN ASSOCIATION OF PORT AUTHORITIES

BEFORE THE HOUSE SUBCOMMITTEE ON
MERCHANT MARINE

APRIL 28, 1994

Thank you for the opportunity to submit this statement for the record on behalf of the American Association of Port Authorities on funding proposals for a maritime revitalization program. Founded in 1912, AAPA represents virtually every U.S. public port agency, as well as the major port agencies in Canada, Central and South America and the Caribbean. My testimony today reflects only the views of the United States delegation of AAPA.

Our Association members are public entities mandated by law to serve public purposes--primarily the facilitation of waterborne commerce and the consequent generation of local and regional economic growth. As public agencies, AAPA members share the public's interest in serving our country's economic, international trade, and national security objectives.

AAPA supports the need for a maritime revitalization program to support a U.S. flag fleet and shipyards and maintain a pool of skilled U.S. crewmen. U.S. ports support the Administration's proposal to create a Maritime Security Fleet. The existence of a strong U.S. flag fleet in international trade provides needed competition, to the benefit of U.S. ports and shippers, as well as meeting our national security needs. In addition, we support the shipbuilding initiatives that the Administration has already undertaken, including a strengthened Title XI loan guarantee program, research and development funding and marketing assistance.

U.S. ports have historically viewed the use of taxes on trade to fund even the most worthwhile programs. In this instance, we remain concerned about the potential negative impact that could result from an increase in the vessel tonnage tax to pay for the program. We encourage Congress to consider alternative funding mechanisms, particularly the Department of Defense budget, since the Department will be a primary beneficiary of the program.

U.S. ports and U.S. trade have already suffered from the series of trade tax increases included in the 1990 budget agreement. At that time, Congress raised the vessel tonnage tax by 350 percent, from 6 to 27 cents per ton for most ships (those arriving from beyond the Western Hemisphere) and from 2 to 9 cents per net registered ton for vessel arriving from the Western Hemisphere. The proposal to fund the Maritime Security Fleet would add an additional increase of approximately 160 percent on top of the current levels.

Public port authorities are keenly aware of the fiscal crunch that the federal, state and local governments are experiencing. As the costs of providing government services continues to rise, so does the need to generate additional revenue. While we appreciate the government's need to find new revenue sources, regressive taxes on trade are not the answer. Greater trade tax burdens on trade will slow, not hasten our economic recovery. At the same time, a strong merchant marine is in the nation's best interest and serves our national security needs. Revenue for such a proposal should rely heavily on the Defense Department, which is the main beneficiary of an available U.S. flag fleet and skilled U.S. crewmen. We urge the Committee to consider alternative funding sources, not taxes on trade, to pay for this important program.

Public ports serve as a vital conduit linking the United States to the world marketplace, a critical intersection in the intermodal chain. Ports serve broad hinterlands, connecting farmers, manufacturers and suppliers often thousands of miles inland to international markets sometimes tens of thousands of miles from our shores.

International trade creates tremendous positive economic impacts at the local, regional and national level. According to recent figures from the Maritime Administration, in 1991, commercial port activities resulting from cargo operations created 1.5 million jobs, contributed $70 billion to the gross national product, provided personal income of $52 billion, and generated federal taxes of $14 billion, state and local taxes of $5.3 billion. The deep draft commercial ports of our country handle over 95 percent of the nation's international trade -- nearly one billion tons of cargo a year worth nearly 500 billion dollars.

The importance of ports to local, state and regional economies cannot be overstated. Exports today are increasingly necessary to the health of America's economy, representing one out of six new U.S. manufacturing jobs. Exports accounted for 90 percent of U.S. GNP growth last year. According to the U.S. Department of Transportation, U.S. ports spent more than $11.8 billion from 1946-1991 on port and related shoreside infrastructure and are expected to spend more than $5.5 billion over next five years.

U.S. ports face stiff competition from their Canadian counterparts. Cargo destined to or from the U.S. midwest can move competitively through a number of U.S. or Canadian ports. While the Department of Transportation estimates that the tonnage tax increase will "only" cost $1.47 per TEU for container traffic, one must keep in mind that for every 10,000 containers a carrier plans to handle at a port each year, it will spend an additional $14,700 simply for choosing a U.S. over a Canadian port.

Taxes on trade are regressive -- taxes cannot be collected on commodities that are not being shipped internationally because they have been priced out of foreign markets or are escaping U.S. taxes by moving across the border to Canadian ports. Not only do our northern tier ports lose cargo to Canada, but, from a national perspective, the projected tax revenue is lost to the U.S. Treasury; cargo which could move efficiently by water is instead imposing a further load on our already overburdened highways and bridges. Worst of all, these taxes are a disincentive to export. Trade taxes, unlike Customs duties, cannot be considered as a "cost of doing business." These taxes undercut our competitiveness in the international marketplace at a time when we should instead be expanding our trade horizons.

Bulk commodities, such as agricultural products and coal, are particularly sensitive to increases in transportation costs. Literally pennies a bushel (for wheat) or a ton (for coal) can make or break a sale in international markets for these U.S. exports. If the transportation cost for shipping these commodities continues to increase due to federal taxes on trade, we may see the U.S. trade deficit increase dramatically.

Cruise operations also make a significant contribution to the U.S. economy. A recent study performed by Price Waterhouse on behalf of the International Council of Cruise Lines, the cruise industry generates more than $14.5 billion in U.S. wages and $6.3 billion in domestic tax revenues, based on 1992 expenditures. The study projects an additional $4.3 billion in wages and $1.9 billion in taxes by 1996, based on an estimated growth of 6.8 percent. The industry currently provides 450,166 U.S. jobs and is expected to add 134,712 full-time jobs to the U.S. economy in the next four years.

With regard to cruise operations, many cruise ports are situated close to foreign ports which also offer cruise passenger services. In order to avoid the application of the additional tax, a vessel owner could easily drop the U.S. port of call and embark passengers at the nearby foreign port. For example, cruise passengers that might otherwise use a Florida port could fly to a Caribbean port for embarkation. Cruise ports have made significant investments of public funds in the physical landside facilities which support cruise calls. Those public funds would be wasted and significant economic benefits to the local and regional economies would be lost if we drive the passenger cruise business offshore with increased taxes. The cruise industry has already been burdened with a significant share of the cost of the North American Free Trade Agreement (NAFTA). In order to offset tariff losses from the passage of NAFTA, last year Congress increased, from $5.00 to $6.50 the Customs processing fee paid by air and sea passengers and eliminated the exemption for passengers arriving from Canada, Mexico and the Caribbean.

After numerous trade tax increases were adopted in the 1990 budget agreement, AAPA helped found the Trade Taxes Group, a coalition of shippers, carriers, commodity groups and other entities interested in waterborne commerce. Two years ago, the Trade Taxes Group came before the Merchant Marine and Fisheries Committee to express our

concerns about the danger of increasing taxes on trade. At that time, no one knew the number of taxes, fees or assessments levied on maritime commerce or the amount of fees collected.

We were very pleased that the Committee asked the General Accounting Office (GAO) to prepare a baseline study of federal taxes on maritime trade. The GAO study, issued March of 1993, identified twelve federal agencies levying a total of 117 diverse assessments for total collections of $11.9 billion in fiscal year 1991. Eighty-nine percent of these collections go directly to the General Fund of the U.S. Treasury. Only eleven percent reimburse the agency providing the service or generate a port-related trust fund.

Maritime commerce and cruise operations already bear a heavy burden of taxes on trade, and should not have to shoulder this new burden as well. Bulk and cruise operators would be particularly hard hit, yet would not receive any benefit from the new program. Again, while U.S. ports do strongly support the Administration's shipbuilding and maritime revitalization programs, we urge Congress look to alternative sources of funds to offset the expense of the Maritime Security Fleet.

Thank you for your consideration of our views.

STATEMENT OF PHILIP J. LOREE, CHAIRMAN
FEDERATION OF AMERICAN CONTROLLED SHIPPING (FACS)
BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE
OF THE HOUSE MERCHANT MARINE
AND FISHERIES COMMITTEE
ON
H.R. 2151 and H.R. 4003
APRIL 28, 1994

Our organization's membership comprises American companies which own, operate, manage, charter, finance or otherwise utilize open registry vessels. Indeed, one of the primary objects and purposes of FACS, as stated in its Articles of Association, is:

> "To encourage free and open maritime trade throughout the world, to oppose artificial and unreasonable restraints on such trade and to facilitate international maritime trade by stressing that flexible, efficient and dependable shipping arrangements are essential to shippers, cargo owners and receivers."

Thus, unlike organizations concerned solely with the interests of ship operators, we have a broader mandate and must view a legislative proposal such as H.R. 4003 not only from the standpoint of its impact on American shipowning companies but also its impact on American cargo owners.

We view the proposed tripling of the vessel tonnage tax in H.R. 4003 as a classic example of a proposal that would tend to impede or interfere with the flexible, efficient and economic movement of maritime trade internationally. Indeed, we find it difficult to believe that its proponents could seriously endorse a funding measure that would add $100 million a year to the oceanborne transportation costs of American exporters and importers and thereby seriously disadvantage them in the international marketplace.

The proponents of tripling the tonnage tax seem to have lost sight of the fact that vessels exist to serve trade, not vice versa. The end result of funding the vessel subsidy program to preserve roughly 1,100 shipboard billets would be to jeopardize thousands upon thousands of shoreside jobs in the United States which are inextricably linked to the international competitiveness of American exporters and importers.

The proponents of the tonnage tax increase apparently believe that operators of vessels in our foreign oceanborne commerce, roughly 96% of which is carried on foreign registered vessels, would simply absorb the added costs of entering U.S. ports on their first five voyages each year. In the real world the charter markets do not work that way. The reality is that any significant costs of visiting a particular loading or discharge port are passed along to the charterers, the shippers, or the passengers, as the case may be. A tax levied by Congress on vessels serving our foreign commerce is really an indirect tax on the American users of the vessels' services.

Tripling the tonnage tax to subsidize liner vessels would mean that roughly 90% of the tax would be paid by the exporters and importers of bulk and other non-liner commodities. The September 1993 study, "Review of U.S. Liner Trades," by the Division of Economic Analysis of the Maritime Administration indicates that 1992 non-liner cargoes accounted for 90% of the 467,000,000 long tons of inbound cargoes in U.S. oceanborne trade, and 85% of the 303,000,000 long tons of outbound cargoes. The rough correlation that exists between deadweight, gross and net registered tons indicates that, ironically, the American users non-liner vessels would be required to pay most of the cos' subsidizing a U.S. flag liner fleet.

The proponents of the tonnage tax also miscomprehend how the charter markets operate in the non-liner trades when they project costs based on the erroneous assumption that rates for specific vessels will automatically drop once those vessels have completed five voyages in a given year. Under normal market conditions, where there are available vessels subject to the added tax and some not subject to further taxation because they have completed their maximum five voyages in that year, the spot rates sought by the latter group of vessels would tend to rise to levels just below those sought by vessels subject to the tax. In effect, the latter group would be seeking "economic rent" in a two-tier charter market, and it would be the American exporters and importers who would be paying that "rent."

A similar impact on charter rates could occur under market conditions where one vessel available for charter might be arriving at a U.S. port from, say, Venezuela and another from, say, North Africa. Under H.R. 4003 the former would be subject to a lower tonnage tax (27c per net registered ton) than the latter (71c per NRT), but the market rate would tend to be influenced by the higher tonnage tax rather than the lower tax. That is because the vessel from Venezuela would be seeking to earn economic rent by offering a rate just slightly below that of the vessel from North Africa.

It should also be kept in mind that the bulk trades operate much differently than the liner trades, relying heavily on tramping rather than back and forth shuttle operations. This means that even if economic rent were not a consideration, most bulk exporters and importers would get little or no relief from the cap on five voyages per vessel per year. For instance, a review of the 78 bulkers delivering some 3-1/2 million tons of bauxite to a Texas refinery during 1993 indicated that none of the vessels had made more than five voyages to the United States. Notably this particular company estimates that on the basis of 1993 shipments to its various facilities, tripling the tonnage tax would increase its costs by about one million dollars per annum.

There are various examples that can be cited to show that if the costs of moving cargoes in the nation's foreign commerce are increased, while the costs of their foreign competitors remain static, Americans will find it increasingly difficult to compete in the global marketplace.

For instance, Americans seeking to export forest products from Moorehead City, North Carolina would find that a 36,000 deadweight ton bulker arriving from Europe to load wood chips would be assessed with a tonnage tax of $13,490 instead of the current tax of $5,130. On a low value commodity such as wood chips, the added transportation cost could deprive the American exporters of sales abroad, to the detriment of American forest product workers in the Carolinas.

Another example is the American coal exporter who charters a 100,000 deadweight ton bulker arriving from, say, the Mediterranean to be light-loaded in Charleston, South Carolina with 50,000 tons of coal destined for Europe. The tonnage tax under H.R. 4003 would total $29,820 (about 60c per ton of coal) or $18,480 more than the current tonnage tax. In the highly competitive international coal trades, where American exporters are already losing ground, the added tonnage tax costs could mean more coal sales by Colombians, Venezuelans, South Africans, Australians, etc. -- and lost jobs for Americans.

The American grain exporter who charters a 60,000 deadweight ton bulker arriving in New Orleans from Europe to transport

American wheat to foreign markets would, under H.R. 4003, have to contend with a tonnage tax of $16,712 for that voyage, instead of the current tax of $6,356. Prior to 1991 the tonnage tax for such vessel was $1,412, which means that the tax would have jumped well over ten times in less than four years.

In the intensely competitive world marketplace for agricultural commodities, American farmers would be the ultimate losers if spiraling tonnage taxes in this country made it impossible to compete against their foreign counterparts in markets where a few cents per ton may determine the winner of the export sales competition.

The chemical industry would face a crippling double hit from the proposed tonnage tax increase, because chemical manufacturers have to import feedstocks and then export their chemical products, typically on different vessels.

At the same time, some shipping practices providing competitive advantages to Americans could be effectively eliminated. For example, coal exports from Hampton Roads, Virginia to Japan are sometimes shipped in large, highly economic Capesize bulkers in the 150,000 to 200,000 deadweight tons range. Because of draft limitations the Capesize bulkers are light loaded in Virginia but then are topped off to full capacity with coal in Richards Bay, South Africa or iron ore in Brazil on the voyages to Japan. Under H.R. 4003 a 200,000 bulker arriving at Hampton Roads from the Far East would be assessed a tonnage tax of about $44,730 - or a cost of almost 41c per ton of cargo. That level of taxation would rule out the future light loading of Capesize vessels in Hampton Roads and deprive American exporters of the economies of scale derived from using light-loaded Capesize bulkers.

Of course, U.S. ports would be hard hit by a tripling of the tonnage tax, especially those ports subject to competition for cargo diversion to Canadian ports. The ports in this category include Seattle and all of the American ports on the Great Lakes.

There are countless other examples of how Americans could be hurt by the proposal in H.R. 4003 to triple the tonnage tax to pay for an unrelated domestic subsidy program benefiting a relatively few but very likely harming many other Americans.

We believe that in today's highly competitive global economy it would be myopic for the U.S. Congress to burden the service industry which transports the nation's oceanborne foreign trade at internationally competitive rates. Tripling the tonnage tax to pay for an unrelated domestic program might seem, at first glance, to be a way to slough off politically distasteful costs on foreign enterprises. But it is really a tax that would disadvantage Americans who must compete in the international marketplace.

We urge your Committee to reject the proposed tripling of the tonnage tax in H.R. 4003.

CENSA

Council of European & Japanese
National Shipowners' Associations

HEARING BY THE MERCHANT MARINE SUBCOMMITTEE OF THE HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE ON FUNDING PROPOSALS FOR MARITIME REFORM

STATEMENT OF THE COUNCIL OF EUROPEAN & JAPANESE NATIONAL SHIPOWNERS' ASSOCIATIONS (CENSA)

The Council of European & Japanese National Shipowners' Associations (CENSA) is pleased to submit comments in connection with the hearing on April 28, 1994 by the Merchant Marine Subcommittee of the House Merchant Marine and Fisheries Committee on funding proposals for Maritime Reform.

CENSA is comprised of the National Shipowners' Associations of Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Sweden and the United Kingdom, plus individual liner operators/container consortia from most of those Countries. These countries and their shipowners represent a large majority of the trading partners of the United States in the liner, bulk and tanker trades.

TONNAGE FEES

These comments are directed solely to the proposed increase in the tonnage taxes contained in HR 4003, sec. 203.

FUNDING PROPOSAL

CENSA opposes the proposed mechanism for raising revenue to fund subsidies for a U.S. flag fleet of liner vessels by levying substantial supplemental duties on all shipping movements in the international commerce of the United States.

CENSA estimates that more than 75% of all sea-borne cargo shipments to and from the United States are carried in foreign owned vessels. Such a ratio is typical of many major trading economies, and reflects the diversity of the world's competitive

maritime fleet.

The obvious consequence of the tonnage fee proposal is to place upon foreign shipping companies and their shareholders, the principal burden of funding a subsidy program for the U.S. flag liner fleet. In CENSA's view, it is unacceptable that foreign shipowners, trading with the United States with a full range of tankers and dry bulk carriers as well as container vessels in the liner trades, should be taxed specifically to subsidize a fleet of U.S. liner vessels, providing the larger part of its $100 million a year cost.

This levy would have significant detrimental effect on the profitability of ships operating in the United States international trade, and would undoubtedly have a direct impact on the cost competitiveness of some major cargo movements, especially in the bulk trades. The additional costs imposed would be substantial - an extra $5,000 per voyage for an average dry bulk carrier, up to $20,000 per voyage for large tankers, whilst liner companies would face increases in their U.S. operating costs ranging from $300,000 per year for those in a single intercontinental trade route to $3 million per year for the large multi-trade operators.

INTERNATIONAL RELATIONS

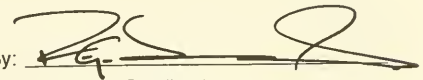
This proposed levy is contrary to the policy of the United States to foster international trade and reduce trade barriers among nations. The United States has entered into treaty obligations through multilateral agreements to uphold the principle that fees charged on international trade movements should be related to the service provided. However, the United States Administration has clearly stated that the purpose of this massive surcharge on the currrent level of fees is to fund the subsidy program. The "offsetting" mechanism is therefore no more than a device to avoid a direct violation of the United States' international obligations. Such stratagems will invite retaliatory action and encourage other countries to pass on their maritime subsidy costs to their trading partners, including the United States.

CENSA appreciates this opportunity to present its views on these important issues.

Respectfully submitted,

Council of European & Japanese
National Shipowners' Associations

April 28, 1994

By: 

Peter G. Sandlund
Washington Representative

This material is transmitted by Peter G. Sundlund 1730 M Street, N.W., Washington, D.C., who is registered under the Foreign Agents Registration Act of 1938 as amended, as Washington, D.C. Representative of the Council of European & Japanese National Shipowners' Associations, 30/32 St. Mary Axe, London EC 3A 8ET, England. This material is filed with the Department of Justice, where the required registration statement is available for public inspection. Registration does not indicate approval of this material by the United States Government.

PASSENGER
VESSEL
ASSOCIATION

808 17th Street, NW,
Suite 200
Washington,
DC 20006-3910

Fax
(202) 785-0540

(202) 785-0510

formerly
**the National
Association
of Passenger
Vessel Owners**

**Statement Of The
Passenger Vessel Association
forthe**

Subcommittee on Merchant Marine

Regarding

Proposals To Fund Maritime Reform

April 28, 1994

Chairman Lipinski, the Passenger Vessel Association submits this statement for the record on various proposals which have been put forward to fund the proposed new maritime security fleet payments for the U.S.-flag international liner fleet. We appreciate the opportunity to comment.

The Passenger Vessel Association (PVA) is the national trade association for the domestic passenger vessel industry. Founded in 1971, PVA today represents more than 500 companies that own, operate and supply U.S.-flag passenger vessels. These include dinner boats, tour and excursion boats, car and passenger ferries, private charter vessels, riverboat casinos, eco-touring vessels such as whalewatching boats, and overnight cruise ships. Member companies of the Association operate more than 1,200 vessels ranging in size from 7 to 4,000 passengers, and together carry approximately 80 million passengers a year.

On October 6 of last year PVA submitted a statement for the hearing record on H.R. 2380, the Maritime Trust Fund Act of 1993. This well-intentioned legislation would, among other things, place a new five-percent ticket tax on foreign destination passenger cruises, whether or not the cruises were undertaken by foreign or U.S.-flag vessels. Our Association represents a number of companies that operate vessels which call at foreign ports, and all would be affected by this new five-percent ticket tax.

These vessels, all U.S.-flag and Coast Guard certified, sail primarily to ports of call in Canada, Mexico and the Caribbean. Clipper Cruise Line out of St. Louis, for example, runs the NANTUCKET CLIPPER from Rochester, New York up to Montreal and Quebec City in Canada. On the West Coast, the YORKTOWN CLIPPER has offered cruises which stop at both Canadian and Mexican ports. A quick calculation of the five percent ticket tax on these cruises shows an estimated impact in excess of $1 million.

Similarly, an officer of Wilderness Cruises in Seattle, which operates the vessels SEALION and SEABIRD on ten voyages a year, wrote last year that "five percent of revenue exceeds our profit margin even in a good year. We are already facing more and more competition from huge foreign-flagships who can offer their product at much lower prices because of their lower operating costs and larger capacities. These foreign flag ships might be able to absorb this 5% tax. We can't."

This sentiment is shared universally by our member companies who operate vessels to foreign destinations. Ours are not the large, foreign-flag cruise ships prominently featured in many advertisements. These are smaller American owned vessels, all operated in full accordance with U.S. law and paying U.S. income tax, harbor maintenance fees, Coast Guard inspection fees and other fees applicable to U.S. companies. They can ill afford another tax, especially one as significant as that proposed in H.R. 2380, and expect to continue in this business for long.

For this reason, we support H.R. 3361 introduced by Congressman Ron Machtley to exempt small passenger vessels - of any flag - from the five percent ticket tax proposed first by H.R. 2380. Specifically, this bill exempts from the tax foreign destination voyages on a vessel with a passenger berthing capacity of 150 berths or fewer. In summary, if not amended, the tax proposed by H.R. 2380 would take small passenger vessels out of the foreign destination market overnight. It would put an end to unique itineraries that are popular with the traveling public, profitable for the American owners, and mean jobs for people who need them..

The other tax proposal that has been made as part of the Administration's plan for maritime reform is less onerous. The increase in the existing tonnage tax which is proposed would affect these same companies but with far less severe consequences. Because the passenger vessels in question are relatively small, most under 100 gross tons, and because the tax does not apply after five port calls, the impact on these companies is not huge.

We will observe, however, that either tax would mean trouble for those hoping to hoist a U.S.-flag atop a large foreign destination cruise ship. As you know, the American maritime community for years has attempted to gain a foothold in the larger cruise ship market which, today, is dominated by foreign-flag vessels. Representative Jolene Unsoeld, in fact, has introduced ambitious legislation in an attempt to revive the U.S.-flag cruise ship industry in the United States. Taxes which would apply if such vessels were to include foreign ports in mixed itineraries will not further that goal.

We will observe, also, that the equity of taxing domestic American passenger vessels in any manner in order to provide a federal subsidy to the international cargo-carrying fleet seems questionable. While we understand and appreciate the sincere concern over the health and future of the international U.S.-flag merchant marine, for whom these proposals are made, we respectfully suggest that imposing a tax on individuals who derive no identifiable benefit in return may not be the best approach.

Jean, Joh, Carl
5-17-94

LOUIS PARISE
PRESIDENT

TALMAGE E. SIMPKINS
EXECUTIVE DIRECTOR

AFL-CIO MARITIME COMMITTEE
THE VOICE OF MARITIME LABOR
1150 17TH STREET, N.W., SUITE 700, WASHINGTON, D.C. 20036 • (202) 835-0404 •

May 11, 1994

RECEIVED
MAY 16 1994
COMMITTEE ON MERCHANT MARINE AND FISHERIES

COPY

Honorable William O. Lipinski, Chairman
Subcommittee on Merchant Marine
Merchant Marine and Fisheries Committee
U.S. House of Representatives
543 Ford House Office Building
Washington, DC 20515

Dear Chairman Lipinski:

We appreciate your efforts and the efforts of the Committee on behalf of an American-flag merchant marine. We are also appreciative of your invitation to appear and testify on H.R. 4003 and H.R. 2380, funding proposals for maritime reform.

We ask that you give consideration to the following recommendation and we further ask that it be made a part of the record of the hearings held on April 28, 1994:

The Administration has proposed an increase in tonnage taxes (46 USC 121) as a source of funds to pay for the maritime revitalization program. This tax and the proposed increase is perceived as being levied against all ships on their first five entries into the United States each year. (We say perceived because there is a question as to whether or not this tax can be set aside by treaty. If this is currently possible, we suggest that you give consideration to closing this loophole.)

While we support and applaud the Administration's efforts on behalf of an American-flag Merchant Marine, there is, in our opinion, an additional and more equitable way of raising revenue that would exclude vessels that are currently paying taxes to this country or to their country of registry.

This could be accomplished by amending an obscure section of the law originally enacted in 1913. Section 146 of Title 46 of the United States Code provides for a 10 percent ad valorem duty on "goods, wares, and merchandise imported" into the U.S. on foreign-flag ships. This law also provides that the duty may be waived through bilateral treaties that extend national treatment to U.S.-flag ships trading to or from the treaty country. Treaties currently are in place that exclude the payment of this tax.

EXISTING--

SECTION 146, TITLE 46. Discriminating duty on merchandise imported in foreign vessels

A discriminating duty of 10 per centum ad valorem, in addition to the duties imposed by law, shall be levied, collected, and paid on all goods, wares, and merchandise which shall be imported on vessels not of the United States; but this discriminating duty shall not apply to goods, wares, and merchandise which shall be imported in vessels not of the United States, entitled by treaty or any act of Congress, to be entered in the ports of the United States on payment of the same duties as shall then be paid on goods, wares, and merchandise imported in vessels of the United States, nor to goods, wares, and merchandise imported in a vessel owned by citizens of the United States, but not a vessel of the United States, if such vessel, after entering an American port, shall before leaving the same be registered as a vessel of the United States.

There are a large number of ships registered under the so-called "runaway-flags" that do not pay taxes **ANYWHERE** which is one of the primary reasons the "runaways" were created. The open registry countries where these ships are registered were quick to negotiate a treaty with the United States as enumerated in Section 146 so as to avoid this duty. These treaties were negotiated even though the ships covered never go near the country whose flag they fly.

There is no "sovereign" connection between "runaway-flag" ships and the country of registry. For example: the Liberian registry, the largest in the world, is located in Reston, Virginia. This registry was recently sold for $1.9 million to several lawyers in New York City. The company selling the registry, United Services Life Insurance Company, received a $9 million tax write-off from the U.S. Internal Revenue in connection with the sale.

An amendment to Section 146 as defined below would provide adequate funds to pay for a maritime program. This duty, if set at 1 percent of the value of goods imported instead of the 10 percent in the original law, would generate $2,250 billion based on the value of 1992 imports. (In 1992, the value of waterborne imports was $302.7 billion. It is reliably estimated that 75 percent of our imports are carried on "runaway-flag" ships, therefore, the calculation--1 percent of 75 percent of the value of our waterborne imports.)

BOSTON PUBLIC LIBRARY
3 9999 05982 724 4

If this amendment were adopted, several things would happen:

-- The owners of these "runaway-flag" ships would continue their ships under the open registries and pay the duty which would provide the needed funds to promote the American-flag to the level of 90 to 100 ships. (It is highly unlikely that this duty would be passed on to the consumers because of the surplus of ships and the tremendous profits they are currently making.)

-- If the taxes were passed on to the consumer, or if the ships were transferred to a traditional maritime flag, or if the ownership and manning were adjusted to avoid the tax, it would have the additional benefit of encouraging U.S.-flag operations.

It is not logical to assume that these "runaway-flag" operators would divert their operations to a nearby foreign port and raise their costs by as much as 25 to 50 percent or leave this lucrative market to avoid this duty, but again, if they were that irrational, it would create a bonanza for the U.S.-flag merchant marine as well as the legitimate merchant fleets of the world.

PROPOSED-- (Changes underlined)

SECTION 146, TITLE 46. Discriminating duty on merchandise imported in foreign vessels

A discriminating duty of 1 per centum ad valorem, in addition to the duties imposed by law, shall be levied, collected, and paid on all goods, wares, and merchandise which shall be imported on vessels not of the United States; but provided that this discriminating duty shall not apply to goods, wares, and merchandise which shall be imported in vessels not of the United States, entitled by treaty or any act of Congress, to be entered in the ports of the United States on payment of the same duties as shall then be paid on goods, wares, and merchandise imported in vessels of the United States, provided, further, however, that such vessels are at least 50 percent owned, manned and registered in the same country; nor to goods, wares, and merchandise imported in a vessel owned by citizens of the United States, but not a vessel of the United States, if such vessel, after entering an

American port, shall before leaving the same be registered as a vessel of the United States.

Any combination of the revenues raised by the Administration's proposal, your proposal and those outlined here would provide adequate revenues to fund the maritime revitalization to the level of a 90-ship program as well as the shipyard program.

Opposition to the Administration's proposal, as voiced by the European Community and the Japanese, is not applicable to the proposed amendment to Section 146 because it would not affect ships registered in their countries.

Our proposal, as outlined, would have a minimal effect on the cost of imports and absolutely no effect on the cost of exports.

Respectfully,

Louis Parise
President

Talmage E. Simpkins
Executive Director

cc: Honorable Gerry Studds
Honorable Jack Fields
Honorable Herbert H. Bateman

ISBN 0-16-045847-1